

Medical University of Ohio  
Lucas County

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Financial Statements

June 30, 2006





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Medical University of Ohio  
3355 Glendale Ave  
Toledo, Ohio 43617

We have reviewed the *Independent Auditor's Report* of the Medical University of Ohio, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2005 to June 30, 2006. 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 black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 15, 2006

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# Medical University of Ohio

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**Plante & Moran, PLLC**

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## Independent Auditor's Report

To the Board of Trustees  
Medical University of Ohio

We have audited the basic financial statements of Medical University of Ohio (formerly known as Medical College of Ohio), a component unit of the State of Ohio, as of June 30, 2006 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Medical University of Ohio's management. Our responsibility was to express an opinion on those basic financial statements based on our audit. 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 Medical University of Ohio for the discretely presented component units, is based solely on the reports of the other auditors. The June 30, 2005 financial statements were audited by other auditors, whose report date was October 7, 2005, and received an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Medical University of Ohio and its discretely presented component units as of June 30, 2006 and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2006. 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 to provide opinions on the internal control 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.

The management's discussion and analysis presented on pages 3 through 9 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Board of Trustees  
Medical University of Ohio

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Medical University of Ohio taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2006 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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.

*Plante & Moran, PLLC*

September 22, 2006

# 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, 2006, 2005 and 2004. 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.

In 2004, MUO retroactively implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required MUO to reflect the Medical University of Ohio at Toledo 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.

Because of the significance of its relationship with MUO, The Medical College of Ohio Clinical Faculty, Inc (MCOCF) is a discretely presented component unit in the 2005 financial statements of MUO. MCOCF provides administrative support, billing and collection services for physician services at 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 Gerard Otten, Executive Director, at 3355 Glendale Avenue, 3<sup>rd</sup> floor, Toledo, Ohio 43614.

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, 2006 as compared to the previous year as evidenced by the following:

MUO's total assets increased over the prior year by \$17.0 million. Current assets increased by \$10.2 million. Cash and investments included in total assets decreased by \$8.8 million, of which \$18.8 million is investment held in trust from sale of bonds.

- Total liabilities increased by \$9.0 million. Current liabilities increased by \$7.9 million. Noncurrent liabilities increased by \$1.1 million.
- MUO's net assets are \$233.2 million, of which \$165.7 is either invested in capital assets or restricted.
- Operating revenues increased by \$12.5 million compared to the prior year, primarily due to an increase in patient services.
- MUO's operating expenses increased by \$14.2 million; the majority is related to a \$9.0 million increase in salaries and benefits.
- Nonoperating revenue decreased by \$0.5 million.

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, 2006, 2005 and 2004 (in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Current assets	\$ 72,074	\$ 61,839	\$ 61,051
Capital assets	158,562	145,681	150,651
Other noncurrent assets	<u>109,489</u>	<u>115,643</u>	<u>56,749</u>
Total assets	<u>340,125</u>	<u>323,163</u>	<u>268,451</u>
<b>LIABILITIES</b>			
Current liabilities	48,253	40,400	39,855
Noncurrent liabilities	<u>58,715</u>	<u>57,605</u>	<u>9,826</u>
Total liabilities	<u>106,968</u>	<u>98,005</u>	<u>49,681</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	154,735	139,382	150,541
Restricted, expendable	10,473	10,737	10,567
Restricted, nonexpendable	492	909	2,957
Unrestricted	<u>67,457</u>	<u>74,130</u>	<u>54,705</u>
Total net assets	<u>\$ 233,157</u>	<u>\$ 225,158</u>	<u>\$ 218,770</u>

Fiscal Year 2006 Compared to 2005

At June 30, 2006, total MUO assets were \$340.1 million, compared to \$323.2 million at June 30, 2005. MUO's largest asset is its investments in physical plant of \$158.6 million at June 30, 2006 and \$145.7 million at June 30, 2005.

In fiscal 2006, MUO's current assets of \$72.1 million covered current liabilities of \$48.3 million (current ratio of 1.49:1). In fiscal 2005, current assets of \$61.8 million covered current liabilities of \$40.4 million (current ratio of 1.53:1). Cash, cash equivalents and investments included in current assets increased \$6.2 million while amounts included in noncurrent assets decreased \$15.0 million.

MUO liabilities total \$107.0 million at June 30, 2006, compared to \$98.0 million at June 30, 2005. Long-term debt, including current portion, was \$53.8 million at June 30, 2006, compared to \$56.3 million at June 30, 2005, and consists of bonds, master lease, and other capital leases payable.

Total net assets are \$233.2 million at June 30, 2006 compared to \$225.2 million at June 30, 2005. Unrestricted net assets total \$67.5 million and \$74.1 million at June 30, 2006 and 2005, respectively.

### 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 covered current liabilities of \$40.4 million (current ratio of 1.53:1). In fiscal 2004, current assets of \$61.1 million covered 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.

### 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>2006</u>	<u>2005</u>	<u>Amount</u>	<u>Percentage</u>	<u>2004</u>	<u>Amount</u>	<u>Percentage</u>
<b>OPERATING REVENUES</b>							
Student Tuition and fees (net of student aid)	\$ 24,038	\$ 21,070	\$ 2,968	14.1%	\$ 17,624	\$ 3,446	19.6%
Grants and Contracts	23,686	25,532	(1,846)	-7.2%	27,839	92	0.3%
Hospital	200,669	187,812	12,857	6.8%	180,089	7,723	4.3%
Other Operating Revenue	21,498	20,552	946	4.6%	20,188	364	1.8%
Total Operating Revenues	<u>269,891</u>	<u>254,966</u>	<u>14,925</u>	5.9%	<u>245,740</u>	<u>11,625</u>	4.7%
<b>OPERATING EXPENSES</b>							
Salaries and Benefits	185,197	176,151	9,046	5.1%	171,204	4,947	2.9%
Supplies	48,667	45,193	3,474	7.7%	41,823	3,370	8.1%
Outside Purchased Services	33,052	33,753	(701)	-2.1%	29,408	4,345	14.8%
Other Expenses	25,147	17,959	7,188	40.0%	20,542	(184)	-0.9%
Depreciation	16,028	18,470	(2,442)	-13.2%	19,045	(575)	-3.0%
Total Operating Expenses	<u>308,091</u>	<u>291,526</u>	<u>16,566</u>	5.7%	<u>282,022</u>	<u>11,903</u>	4.2%
<b>NONOPERATING REVENUES (EXPENSES) AND OTHER CHANGES</b>							
State Appropriations	33,866	33,894	(28)	-0.1%	33,568	326	1.0%
Other Nonoperating Revenues	6,771	7,241	(470)	-6.5%	4,775	2,466	51.6%
Other Changes	5,562	1,813	3,749	206.8%	2,785	(972)	-34.9%
Net Nonoperating Revenues and Other Changes	<u>46,199</u>	<u>42,948</u>	<u>3,251</u>	7.6%	<u>41,128</u>	<u>1,820</u>	4.4%
Increase in Net Assets	7,999	6,388	1,611	25.2%	4,846	1,542	31.8%
Net Assets at Beginning 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%
Net Assets at End of Year	<u>\$ 233,157</u>	<u>\$ 225,158</u>	<u>\$ 7,999</u>	3.6%	<u>\$ 218,770</u>	<u>\$ 6,388</u>	2.9%

### Fiscal Year 2006 Compared to 2005

The most significant sources of operating revenues for MUO are patient care services, tuition and fees, grants and contracts, of which the most significant increase was \$12.9 million in patient care.

For the year ended June 30, 2006, operating expenditures, including depreciation of \$16.0 million, totaled \$308.1 million. For the year ended June 30, 2005 operating expenditures, including depreciation of \$18.5 million, totaled \$291.5 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 at June 30, 2006 and 2005.

### Fiscal Year 2005 compared to 2004

The most significant sources of operating revenues for MUO are patient care services, tuition and fees, 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 \$291.5 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, totally \$33.9 million and \$33.6 million at June 30, 2005 and 2004, 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 interest received from investing activities. The last section reconciles the net cash to operating income or loss reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Medical University of Ohio  
Condensed Statements of Cash Flows  
For the years ended June 30, 2006, 2005 and 2004  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided by (used in):			
Operating activities	\$ (23,589)	\$ (19,495)	\$ (21,377)
Noncapital financing activities	38,097	38,269	38,972
Capital financing activities	(27,783)	35,157	(10,348)
Investing activities	<u>19,475</u>	<u>(55,303)</u>	<u>(4,581)</u>
Net (decrease) increase in cash	6,200	(1,372)	2,666
Cash and cash equivalents, beginning of year	3,226	4,598	1,932
Cash and cash equivalents, end of year	<u>\$ 9,426</u>	<u>\$ 3,226</u>	<u>\$ 4,598</u>

### Fiscal Year 2006 Compared to 2005

In 2006, major sources of cash included student tuition and fees (\$24.1 million), state appropriations (\$33.9 million), patient care services (\$198.6 million), and grants and contracts (\$23.7 million). The largest payments in 2006 were for suppliers (\$45.0 million) and employees (\$180.6 million).

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 suppliers (\$45.0 million) and employees (\$176.1 million).

### 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 suppliers (\$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 suppliers (\$41.7 million) and employees (\$171.6 million).

### Capital Assets

MUO has \$158.6 million invested in capital assets, net of accumulated depreciation of \$241.4 million. Depreciation charges for the current year are \$16.0 million. Detailed information about MUO's capital assets is presented in the notes to the financial statements.

### Economic Factors That Will Affect the Future

Effective July 1, 2006, MUO merged with the University of Toledo, a component of the State of Ohio.

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 Daniel J. Morissette, Sr. Vice President For Finance and Strategy, 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>	
	June 30,		Foundation		Clinical Faculty, Inc.	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$ 9,232	\$ 3,032	\$ 625	\$ 1,185	\$ 828	\$ 544
Investments	-	-	27,265	26,522	3,568	3,712
Accounts Receivable, Net	47,617	45,591	2,239	385	11,036	9,935
Loans Receivable, Net	4,887	4,900	3,491	3,477	-	-
Inventories	8,857	7,727	-	-	-	-
Other Assets	1,481	589	95	94	337	963
Total Current Assets	<u>72,074</u>	<u>61,839</u>	<u>33,715</u>	<u>31,663</u>	<u>15,769</u>	<u>15,154</u>
<b>Noncurrent Assets</b>						
Restricted Cash and Cash Equivalents	194	194	-	-	-	-
Other Long-Term Investments	79,526	69,570	-	-	426	275
Restricted Investments	20,952	45,879	-	-	-	-
MUOAC Insurance Company	8,817	-	-	-	-	-
Charitable Remainder Trusts and Annuity Contracts	-	-	82	86	-	-
Cash Surrender Value of Life Insurance Policies	-	-	148	151	-	-
Capital Assets, Net	158,562	145,681	533	535	109	144
Total Noncurrent Assets	<u>268,051</u>	<u>261,324</u>	<u>763</u>	<u>772</u>	<u>535</u>	<u>419</u>
Total Assets	340,125	323,163	34,478	32,435	16,304	15,573
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts Payable	16,075	12,372	3,783	3,699	3,201	4,009
Contribution Payable	-	-	180	1,125	-	-
Accrued Liabilities	27,450	22,834	125	85	8,369	7,478
Long-Term Debt - Current Portion	2,009	2,494	-	-	-	-
Deferred Revenue	2,519	2,500	-	-	-	-
Medical Professional Liability - Current Portion	200	200	-	-	-	-
Total Current Liabilities	<u>48,253</u>	<u>40,400</u>	<u>4,088</u>	<u>4,909</u>	<u>11,570</u>	<u>11,487</u>
<b>Noncurrent Liabilities</b>						
Long-Term Debt	51,818	53,805	-	-	-	-
MUOAC Insurance Company	3,804	-	-	-	-	-
Medical Professional Liability - Long-Term Portion	3,093	3,800	-	-	-	-
Total Noncurrent Liabilities	<u>58,715</u>	<u>57,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>106,968</u>	<u>98,005</u>	<u>4,088</u>	<u>4,909</u>	<u>11,570</u>	<u>11,487</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	154,735	139,382	-	-	-	-
Restricted						
Expendable	10,473	10,737	17,253	13,781	-	-
Nonexpendable	492	909	12,585	12,538	-	-
Unrestricted	67,457	74,130	552	1,207	4,734	4,086
Total Net Assets	<u>233,157</u>	<u>225,158</u>	<u>30,390</u>	<u>27,526</u>	<u>4,734</u>	<u>4,086</u>
Total Liabilities and Net Assets	<u>\$ 340,125</u>	<u>\$ 323,163</u>	<u>\$ 34,478</u>	<u>\$ 32,435</u>	<u>\$ 16,304</u>	<u>\$ 15,573</u>

See accompanying notes to financial statements

**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 University of Ohio Clinical</u>	
	<u>Years Ended June 30,</u>		<u>Foundation</u>		<u>Faculty Inc.</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>						
Operating Revenues						
Student Tuition and Fees, net of student aid of \$2,884 and \$2,480, respectively	\$ 24,038	\$ 21,070	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	15,672	16,266	-	-	-	-
State Grants and Contracts	693	1,513	-	-	-	-
Private Grants and Contracts	7,321	7,753	-	-	-	-
Hospital	200,669	187,812	-	-	-	-
Other Patient Services Revenue	-	-	-	-	41,053	45,049
Sales and Services	3,218	4,941	-	-	-	-
Contributions and Support	-	-	3,052	3,650	-	-
Auxillary Enterprises	2,950	3,089	-	-	-	-
Residency Reimbursement	3,899	3,582	-	-	-	-
Interest on Student Loans	78	85	1,277	1,136	-	-
Other Sources	11,353	8,855	1,086	423	9,806	7,329
Total Operating Revenues	<u>269,891</u>	<u>254,966</u>	<u>5,415</u>	<u>5,209</u>	<u>50,859</u>	<u>52,378</u>
<b>Expenses</b>						
Operating Expenses						
Salaries	146,122	140,612	-	-	28,305	28,459
Benefits	39,075	35,539	-	-	9,865	9,851
Supplies	48,667	45,193	-	-	7,225	8,349
Travel	1,925	1,881	-	-	396	369
Support of College	-	-	4,357	4,199	1,401	1,245
Fund Raising	-	-	276	301	-	-
Management	-	-	1,216	968	11	6
Information and Communication	3,654	3,183	-	-	143	77
Outside Purchased Services	33,052	33,753	-	-	868	1,019
Provision for Doubtful Accounts	10,176	8,591	-	-	-	-
Other	9,392	4,304	-	-	2,382	3,170
Depreciation	16,028	18,470	-	-	89	99
Total Operating Expenses	<u>308,091</u>	<u>291,526</u>	<u>5,849</u>	<u>5,468</u>	<u>50,685</u>	<u>52,644</u>
Operating Income (Loss)	(38,200)	(36,560)	(434)	(259)	174	(266)
<b>Nonoperating Revenues (Expenses)</b>						
State Appropriations	33,866	33,894	-	-	-	-
Federal Grants and Contracts	4,479	4,498	-	-	-	-
Excess (Deficiency) of Restricted Receipts	(248)	(123)	-	-	-	-
Investment Income	4,504	3,591	3,176	2,171	528	412
Interest on Debt	(1,964)	(725)	-	-	(54)	(23)
Total Operating Revenues	<u>40,637</u>	<u>41,135</u>	<u>3,176</u>	<u>2,171</u>	<u>474</u>	<u>389</u>
Net Gain Before Other Changes	2,437	4,575	2,742	1,912	648	123
<b>Other Changes</b>						
Capital Appropriations	2,951	771	-	-	-	-
Additional Funding for Plant Facilities	1,903	2,399	-	-	-	-
Addition to Permanent Endowment	-	-	122	104	-	-
Net Disposal and Write off of Plant Facilities	708	(1,357)	-	-	-	-
Total Other Changes	<u>5,562</u>	<u>1,813</u>	<u>122</u>	<u>104</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	7,999	6,388	2,864	2,016	648	123
<b>Net Assets</b>						
Net Assets at Beginning of Year	225,158	218,770	27,526	25,510	4,086	3,963
Net Assets at End of Year	<u>\$ 233,157</u>	<u>\$ 225,158</u>	<u>\$ 30,390</u>	<u>\$ 27,526</u>	<u>\$ 4,734</u>	<u>\$ 4,086</u>

See accompanying notes to financial statements

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

<b>Medical University of Ohio</b>		
<b>Year Ended June 30</b>		
	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Tuition and Fees	\$ 24,070	\$ 21,674
Grants and Contracts	23,686	27,931
Hospital Revenues	198,643	187,274
Miscellaneous Income	2,088	3,218
Auxiliary Enterprises	6,849	6,671
Payments to Employees	(180,582)	(176,127)
Payments for Supplies	(44,964)	(44,999)
Payments for Outside Purchased Services	(33,052)	(33,753)
Other Receipts (Payments)	(20,327)	(11,384)
Net Cash Used in Operating Activities	(23,589)	(19,495)
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations	33,866	33,894
Grants and Contracts for Other than Capital Purposes	4,479	4,498
Excess (Deficit) of Restricted Receipts	(248)	(123)
Financial Aid Loan Receipts	22,970	23,521
Financial Aid Loan Disbursements	(22,970)	(23,521)
Net Cash Provided by Noncapital Financing Activities	38,097	38,269
<b>Cash Flows from Capital Financing Activities</b>		
Proceeds from Sale of Bonds	-	50,000
Capital Appropriations	2,951	771
Capital Grants and Gifts Received	1,903	2,399
Net Disposal and Write Off of Plant Facilities	708	(1,357)
Purchases of Capital Assets	(28,909)	(13,028)
Principal Paid on Long-Term Debt	(2,472)	(2,903)
Interest Paid on Long-Term Debt	(1,964)	(725)
Net Cash Provided by (Used in) Capital Financing Activities	(27,783)	35,157
<b>Cash Flows from Investing Activities</b>		
Net Change in Investments	14,971	(58,894)
Income on Investments	4,504	3,591
Net Cash Provided by (Used in) Investing Activities	19,475	(55,303)
<b>Net (Decrease) Increase in Cash</b>		
Cash and Cash Equivalents Beginning of Year	6,200	(1,372)
Cash and Cash Equivalents End of Year	\$ 9,426	\$ 3,226
<b>Reconciliation of Net Operating Revenues (Expenses) To Net Cash Provided by (Used in) Operating Activities</b>		
Operating Loss	\$ (38,200)	\$ (36,560)
Adjustments to Reconcile Operating Loss to Net Cash by Operating Activities:		
Depreciation Expense	16,028	18,470
Provision for Bad Debts	10,176	8,591
Changes in Assets and Liabilities:		
Receivables, Net	(12,189)	(8,963)
Inventories	(1,130)	(1,723)
Other Assets	(892)	(65)
Medical Professional Liability Accrual	(5,720)	100
Accounts Payable	3,703	194
Accrued Liabilities	4,616	23
Deferred Revenue	19	438
Net Cash Used in Operating Activities	\$ (23,589)	\$ (19,495)

Supplemental disclosure of cash flow information:

During fiscal 2005, MUO entered into capital lease obligations of \$472 for certain equipment, which are also excluded from the statement of cash flows. There are no new capital lease obligations for 2006.

See accompanying notes to financial statements

**MEDICAL UNIVERSITY OF OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2006**

(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, including University Medical Center (UMC), a nonprofit teaching hospital.

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.

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the "business-type" activities reporting requirements of GASB Statement No. 34.

GASB 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following categories:

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement in those assets.

**Restricted:** Net assets subject to externally imposed constraints that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.

**Unrestricted:** Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties. The University has committed the unrestricted net assets to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming and post-employment benefits.

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,

**MEDICAL UNIVERSITY OF OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2006**

(Dollars in Thousands)

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.

During the years ended June 30, 2006 and 2005, the Foundation distributed \$4,357 and \$4,199, 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 2006 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 Gerard Otten, Executive Director, at 3355 Glendale Avenue, 3<sup>rd</sup> 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 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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

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

	Year Ended June 30, 2006	Year Ended June 30, 2005
Traditional charity care	\$ 5,157	\$ 6,032
Unpaid costs of traditional Medicaid programs	5,298	4,925
Unpaid costs of other welfare programs	<u>175</u>	<u>571</u>
Total Charity and Uncompensated Care	<u>\$ 10,630</u>	<u>\$ 11,528</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.

**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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

**Compensated Absences**

Unused sick time may accumulate until retirement. Employees with a minimum of ten years of service 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.

**Reclassifications**

Certain prior year balances were adjusted to conform with the current year presentation.

**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, 2006 and 2005, the carrying amount of MUO's unrestricted cash and cash equivalents for all funds was \$9,232 and \$3,032, respectively. Items in transit and outstanding checks cause the difference in the carrying amount and the bank balances of \$12,895 and \$7,114 at June 30, 2006 and 2005, respectively. Of the bank balance at June 30, 2006 and 2005, \$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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

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
- 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, 2006, consisted of the following:

	2006		2005	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Government/Agency Obligations	\$ 16,423	\$ 16,085	\$ 26,669	\$ 26,750
Corporate Bonds	21,738	21,551	24,613	24,862
Bond Proceeds	18,844	18,921	43,617	43,756
Equity	5,479	5,847	-	-
Mutual Bond Fund	11,482	10,892	8,105	8,108
Mutual Fund Equity	24,141	26,393	12,000	11,973
	<u>\$ 98,107</u>	<u>\$ 99,689</u>	<u>\$ 115,004</u>	<u>\$ 115,449</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, 2006, MUO had the following interest-bearing investments and maturities.

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	\$ 7,198	\$ 3,388	\$ 2,899	\$ -	\$ 911
U.S. Agencies	8,887	472	79	2,353	5,983
Corporate bonds	21,551	286	3,557	6,860	10,848
Mutual bond fund	10,892	-	10,892	-	-
Total	<u>\$ 48,528</u>	<u>\$ 4,146</u>	<u>\$ 17,427</u>	<u>\$ 9,213</u>	<u>\$ 17,742</u>

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

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

**INVESTMENT MATURITIES (IN YEARS)**

Investment Type	Fair Value	Less Than 1	1 thru 5	6 thru 10	More Than 10
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
<b>Total</b>	<b>\$ 59,694</b>	<b>\$ 375</b>	<b>\$ 26,041</b>	<b>\$ 19,649</b>	<b>\$ 13,629</b>

**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, 2006 are as follows:

Credit Rating (Moody's Total)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	\$ 38,441	\$ 7,198	\$ 8,887	\$ 12,880	\$ 9,476
Aa	1,322	-	-	886	436
A	4,130	-	-	3,694	436
Baa	4,353	-	-	4,027	326
Ba	109	-	-	-	109
B	173	-	-	64	109
<b>Total</b>	<b>\$ 48,528</b>	<b>\$ 7,198</b>	<b>\$ 8,887</b>	<b>\$ 21,551</b>	<b>\$ 10,892</b>

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

Credit Rating (Moody's Total)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
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
<b>Total</b>	<b>\$ 59,694</b>	<b>\$ 14,631</b>	<b>\$ 12,093</b>	<b>\$ 24,863</b>	<b>\$ 8,107</b>

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's cash investment policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10 percent of its assets can be in any particular issue. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University did not have investments in any single issuer that equaled 5 percent or more in 2006 or 2005.

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, 2006, MUO had \$6,317 in foreign currency investments. At June 30, 2005, MUO had no exposure to foreign currency risk.

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 \$3,312 and \$3,174 at June 30, 2006 and 2005, respectively.

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

	2006	2005
Patient	\$ 40,268	\$ 38,167
Tuition, Fees and Student Loans	4,887	4,900
Auxiliary Services	161	124
Grants and Contracts	2,861	3,279
Accrued Interest	406	572
Miscellaneous College	2,271	2,495
Miscellaneous Hospital	1,650	954
	\$ 52,504	\$ 50,491

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006 was as follows:

	July 1, 2005 <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reallocations</u>	June 30, 2006 <u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 2,353	\$ -	\$ 112	\$ -	\$ 2,465
Construction in Progress	<u>3,244</u>	<u>22,733</u>	<u>-</u>	<u>(16,114)</u>	<u>9,863</u>
Total capital assets, not being depreciated	5,597	22,733	112	(16,114)	12,328
Capital assets being depreciated:					
Land Improvements	5,124	2	-	102	5,228
Infrastructure	33,527	67	-	38	33,632
Building & Improvements	209,930	381	-	7,711	218,022
Equipment	<u>122,095</u>	<u>5,957</u>	<u>(5,588)</u>	<u>8,263</u>	<u>130,727</u>
Total capital assets being depreciated	370,676	6,407	(5,588)	16,114	387,609
Less: accumulated depreciation	<u>230,592</u>	<u>16,028</u>	<u>(5,245)</u>	<u>-</u>	<u>241,375</u>
Total capital assets being depreciated, net	<u>140,084</u>	<u>(9,621)</u>	<u>(343)</u>	<u>16,114</u>	<u>146,234</u>
Total capital assets, Net	<u>\$ 145,681</u>	<u>\$ 13,112</u>	<u>\$ (231)</u>	<u>\$ -</u>	<u>\$ 158,562</u>

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>0</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	370,675
Less: accumulated depreciation	216,765	18,470	(4,643)	-	230,592
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>

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

Depreciation and amortization are 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 workers’ compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers’ compensation claims of participating State agencies and 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 2006, PERS employees contributed 9% of their salary to the plan and MUO contributed 13.54% 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, 2006 and 2005 were \$13,972 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, 2006**

(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 31<sup>st</sup> 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 2006, 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, 2005 and 2006 were \$3,535 and \$3,422, respectively, which were equal to 100% of the required contributions for each year.

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, 2005 and 2006 were \$985 and \$1,471, 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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

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 7, 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 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 2006 employer contribution rate for state employers was 13.54% of covered payroll; 4% was the portion that was used to fund health care for the year. The law enforcement employer rate for 2006 was 16.7% and 4% 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, 2004.

*Funding Method* – An 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 2004 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 2005, the number of active contribution participants in the Traditional and Combined Plans totaled 376,109. The number of active contribution participants in the Traditional and Combined Plans totaled 355,287 for the year-end 2004. MUO contributed 13.54% 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 \$10.8 billion represents the actuarial value of PERS' net assets available for OPEB's at December 31, 2004. The actuarial accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

On September 9, 2004, the PERS retirement board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCCP, member and employer contributions increased effective January 1, 2006 which will allow additional funds to be allocated to the health care plan.

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 employer's 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, 2005, and June 30, 2004, 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, 2005, 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, 2006 was as follows:

Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
\$ 50,000	\$ -	\$ -	\$ 50,000	\$ -
<u>6,299</u>	<u>-</u>	<u>2,472</u>	<u>3,827</u>	<u>2,009</u>
<u>\$ 56,299</u>	<u>\$ -</u>	<u>\$ 2,472</u>	<u>\$ 53,827</u>	<u>\$ 2,009</u>

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
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>

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

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 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. 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, 2006, MUO would be liable for a termination payment of \$691. 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.

Interest expense paid on indebtedness was \$1,964 and \$725 for the years ended June 30, 2006 and 2005, respectively.

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, 2006, and subsequent periods thereafter for the payment of the principal on the outstanding Series 2005 Bonds.

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 1,431	\$ 1,431
2008	-	1,459	1,459
2009	-	1,430	1,430
2010	860	1,429	2,289
2011	1,610	1,407	3,017
2012-16	8,925	6,333	15,258
2017-21	10,660	4,954	15,614
2022-26	12,735	3,308	16,043
2027-31	15,210	1,343	16,553
	<u>\$ 50,000</u>	<u>\$ 23,094</u>	<u>\$ 73,094</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 \$11.5 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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

Minimum lease payments at June 30, 2006, by year and in the aggregate, under capital leases are as follows:

	Other Lease Obligations	Master Lease Purchase Obligations
2007	\$ 9	\$ 2,129
2008	4	1,164
2009	-	724
	<hr/>	<hr/>
Net minimum lease payments	13	4,017
Less amounts representing interest	<hr/> (1) <hr/>	<hr/> (190) <hr/>
Present value of lease payments	<hr/> <u>\$ 12</u> <hr/>	<hr/> <u>\$ 3,827</u> <hr/>

Contracts have been entered into for capital construction projects in an amount approximating \$14,218. The estimated cost to complete construction in progress at June 30, 2006 is \$9,475.

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

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. SPC was incorporated in the Cayman Islands and operates subject to the provisions of the Companies Law of the Cayman Islands. Under current Cayman Islands law, SPC is not obligated to pay taxes in the Cayman Islands on either income or capital gains. SPC provides an insurance vehicle for the insurance needs of MUO, its staff, and affiliated physicians. SPC does not impact the presentation of the fiscal 2005 financial statements and is blended in MUO results for fiscal 2006.

SPC provides general and professional liability coverage to MUO. The limit of liability is \$12 million per occurrence and \$14.5 million in aggregate for the policy period August 1, 2005 to July 1, 2006. MUO has purchased reinsurance through SPC for its liabilities in excess of \$2 million per occurrence and \$4.5 million in aggregate.

SPC also provides professional liability coverage to Medical College of Ohio Clinical Faculty, Inc. (MCOCF), which is an affiliated nonprofit, multi-specialty physician practice of the Medical University of Ohio. The primary professional liability limit to each physician is \$1 million per occurrence and \$3 million in aggregate, with a group aggregate of \$10 million, for the policy period August 1, 2005 to July 1, 2006. SPC provides excess professional liability coverage for a group of physicians with limits of \$1 million per occurrence with a shared \$3 million aggregate. SPC also provides tail coverage to those physicians that require the coverage. SPC has purchased reinsurance for its physician liabilities in excess of \$500,000 per occurrence.

At June 30, 2006 and 2005, MUO has accrued \$7,094 discounted at 4% and \$4,000 discounted at 4%, respectively, for asserted and unasserted claims based on MUO 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.

**MEDICAL UNIVERSITY OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006**

(Dollars in Thousands)

	June 30, 2006	June 30, 2005
Medical Professional Liability at the Beginning of Year	\$ 4,000	\$ 3,900
Provision for Incurred Claims (MUO and MCOCF)	3,226	217
Payments for Claims	(129)	(117)
Medical Professional Liability at the End of Year	\$ 7,097	\$ 4,000

The above liability includes insurance coverage for MCOCF and has been funded by premiums paid by MCOCF to SPC.

**NOTE 11 – OPERATING EXPENSES**

Operating expenses by functional category for the years ended June 30, 2006, and 2005 are as follows:

	2006	2005
Patient Services	\$ 186,196	\$ 172,031
Instruction	43,253	44,796
Research	19,610	20,403
Depreciation Expense	16,029	18,470
Operation and Maintenance of Plant	11,688	9,892
Provision for Doubtful Accounts	10,176	8,590
Institutional Support	7,324	7,820
Academic Support	7,191	5,818
Auxillary Enterprises	2,300	2,198
Student Services	1,828	1,606
Scholarships and Fellowships	1,378	1,192
Public Service	1,118	1,109
Total Operating Expenses	\$ 308,091	\$ 293,925

**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, 2006. 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 the Medical University of Ohio, a non-profit, state-supported medical school, which is a component unit of the State of Ohio.

**NOTE 13 – SUBSEQUENT EVENTS**

Effective July 1, 2006, the General Assembly of the State of Ohio enacted into law the combination of MUO and The University of Toledo into one state university to be known as The University of Toledo. The University of Toledo is a nonprofit component unit of the State of Ohio and state supported university located in Toledo, Ohio. The University of Toledo will be classified as a state instrumentality under Internal Revenue Code Section 115 and a charitable organization under Internal Revenue Code Section 501 (c) (3).

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Medical University of Ohio

We have audited the financial statements of Medical University of Ohio (formerly known as the Medical College of Ohio) as of and for the year ended June 30, 2006 and have issued our report thereon dated September 22, 2006. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors, whose report was furnished to us, and in our opinion, in so far as it relates to the amounts included for the Medical University of Ohio for discretely presented component units is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 an opinion 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 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 reported under *Government Auditing Standards*.

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

*Plante & Moran, PLLC*

September 22, 2006

**Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance  
with OMB Circular A-133**

To the Board of Trustees  
Medical University of Ohio

**Compliance**

We have audited the compliance of Medical University of Ohio (formerly known as the Medical College of Ohio) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of Medical University of Ohio 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 Medical University of Ohio's management. Our responsibility is to express an opinion on 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 of America; 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 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 Medical University of Ohio's compliance with those requirements.

In our opinion, 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, 2006.

**Internal Control Over Compliance**

The management of 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 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 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

To the Board of Trustees  
Medical University of Ohio

**Internal Control Over Compliance (Continued)**

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.

*Plante & Moran, PLLC*

September 22, 2006

**MEDICAL UNIVERSITY OF OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

<b>AGENCY</b>	<b>CFDA #</b>	<b>AGENCY NUMBER</b>	<b>FY2006</b>
<b>STUDENT FINANCIAL AID</b>			
Federal Work Study Program	84.033	PO33A033313	(24)
Federal Work Study Program	84.033	PO33A033313	(30,610)
Federal Work Study Program	84.033	PO33A033313	203,590
Federal Perkins Loan Program_Federal Capital Contributions	84.038		93,701
<b>Total Student Financial Aid</b>			<b>266,657</b>

**RESEARCH & DEVELOPMENT**

Cooperative Inspection Agreements with States and Tribes	15.222	AA040011	40,148
Military Medical Research and Development	12.420	DAMD170210531	36,344
Military Medical Research and Development	12.420	W81XWH0410062	22,914
Military Medical Research and Development	12.420	W8ASWH0410493	128,099

**Department of Health and Human Services:**

**National Cancer Institute**

National Cancer Institute	93.CN05109	CN05109	861
National Cancer Institute	93.CN15125	N01CN15125	-
National Cancer Institute	93.CN15121	N01CN15121	(5,750)
National Cancer Institute	93.CN25103	CN25103	48,859
National Cancer Institute	93.CN25106	CN25106	82,941
National Cancer Institute	93.CN25117	CN25117	225,836
National Cancer Institute	93.CN25126	CN25126	50,944
National Cancer Institute	93.CN35116	CN35116	182,457
National Cancer Institute	93.261200433000C	HHSN261200433000C	38,115
National Cancer Institute	93.261200433000C	261200433000C	110,976
National Cancer Institute	93.261200433000C	261200433000C	156,629
National Cancer Institute	93.261200433000C	261200433000C	174,117
National Cancer Institute	93.261200433000C	261200433000C	-

**National Institutes of Health**

Biological Response to Environmental Health Hazards	93.113	ES01298101	64,187
National Institutes of Health	93.19277404	19277404	203
Occupational Safety and Health Program	93.262	OH00800002	63,333
National Institutes of Health	93.263005	26300050907	(494)
National Institutes of Health	93.263005	2630005090705	12,752
Drug Abuse and Addiction Research Programs	93.279	KDA015553A	3,987
Drug Abuse and Addiction Research Programs	93.279	DA1555303	101,798
Drug Abuse and Addiction Research Programs	93.279	DA01533616	(15,972)
Drug Abuse and Addiction Research Programs	93.279	DA01533617	280,563
Drug Abuse and Addiction Research Programs	93.279	DA015336-18	58,555
Drug Abuse and Addiction Research Programs	93.279	DA01832401A1	172,646
Drug Abuse and Addiction Research Programs	93.279	DA01834202	115,011
Drug Abuse and Addiction Research Programs	93.279	DA0407515	95,321
Nursing Research	93.361	NR0765003	51,098
National Center for Research Resources	93.389	RR01939001	-
Cancer Cause and Prevention Research	93.393	CA08441206	208,968
Cancer Cause and Prevention Research	93.393	CA10396401	(234)
Cancer Cause and Prevention Research	93.393	CA10396402	9,241
Cancer Cause and Prevention Research	93.393	CA10396403	113,011
Cancer Cause and Prevention Research	93.393	CA10657502	88,904
Cancer Cause and Prevention Research	93.393	CA106575-03	58,924
Cancer Detection and Diagnosis Research	93.394	CA08514705	(4)
Cancer Detection and Diagnosis Research	93.394	CA09580603	(19,682)
Cancer Detection and Diagnosis Research	93.394	CA09580604	210,821
Cancer Detection and Diagnosis Research	93.394	CA09580605	34,542
Cancer Detection and Diagnosis Research	93.394	CA103594-01A1	(565)
Cancer Detection and Diagnosis Research	93.394	CA95806	70,337
Cancer Treatment Research	93.395	CA09052405	218,298
Cancer Treatment Research	93.395	CA09289003	(17)
Cancer Treatment Research	93.395	CA10962501	4,503
Cancer Treatment Research	93.395	CA10962502	138,773
Cancer Biology Research	93.396	CA8018305A1	324,038

**MEDICAL UNIVERSITY OF OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

<b>AGENCY</b>	<b>CFDA #</b>	<b>AGENCY NUMBER</b>	<b>FY2006</b>
Cancer Biology Research	93.396	CA7984005	-
Cancer Biology Research	93.396	CA3456922	(16)
Cancer Biology Research	93.396	CA3456923	49,289
Cancer Biology Research	93.396	CA09814102	(3,501)
Cancer Biology Research	93.396	CA09814103	277,003
Cancer Biology Research	93.396	CA09814104	50,857
Cancer Biology Research	93.396	CA10655001A2	159,369
Cancer Biology Research	93.396	CA10655002	44,497
Cancer Biology Research	93.396	CA10220401A2	203,819
Cancer Biology Research	93.396	CA10220402	13,888
Heart and Vascular Diseases Research	93.837	HL6323804	(26,209)
Heart and Vascular Diseases Research	93.837	HL06529004	-
Heart and Vascular Diseases Research	93.837	HL2017627	(2,226)
Heart and Vascular Diseases Research	93.837	HL2017628	260,935
Heart and Vascular Diseases Research	93.837	HL2017628	437,542
Heart and Vascular Diseases Research	93.837	HL06727604	201,651
Heart and Vascular Diseases Research	93.837	GL6796302	(4)
Heart and Vascular Diseases Research	93.837	HL06796303	(6,743)
Heart and Vascular Diseases Research	93.837	HL06796304	223,071
Heart and Vascular Diseases Research	93.837	HL06899402	(166)
Heart and Vascular Diseases Research	93.837	HL06899403	116,273
Heart and Vascular Diseases Research	93.837	HL06899404	217,379
Heart and Vascular Diseases Research	93.837	HL07155601A1	(49,175)
Heart and Vascular Diseases Research	93.837	HL07155602	1,244,855
Heart and Vascular Diseases Research	93.837	HL07155603	216,298
Heart and Vascular Diseases Research	93.837	HL07155601A1	16,158
Heart and Vascular Diseases Research	93.837	HL07541401A1	(37,174)
Heart and Vascular Diseases Research	93.837	HL07541402	326,908
Heart and Vascular Diseases Research	93.837	HL07541403	4,520
Heart and Vascular Diseases Research	93.837	HL03657317	(1,927)
Heart and Vascular Diseases Research	93.837	HL03657318	926,804
Heart and Vascular Diseases Research	93.837	HI03657319	480,222
Lung Diseases Research	93.838	HL06942504	147,114
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR4806003	2,295
Diabetes, Endocrinology and Metabolism Research	93.847	DK5425405	245,026
Diabetes, Endocrinology and Metabolism Research	93.847	R01DK05425406	83,863
Diabetes, Endocrinology and Metabolism Research	93.847	DK6086202	-
Diabetes, Endocrinology and Metabolism Research	93.847	DK06499202	32,946
Diabetes, Endocrinology and Metabolism Research	93.847	DK07012701A1	284,301
Diabetes, Endocrinology and Metabolism Research	93.847	DK-4386712	(37,677)
Diabetes, Endocrinology and Metabolism Research	93.847	DK04386713	75,873
Digestive Diseases and Nutrition Research	93.848	DK06605502	49,707
Digestive Diseases and Nutrition Research	93.848	DK06706401A2	224,266
Digestive Diseases and Nutrition Research	93.848	DK06616001A2	103,967
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS04765302	803
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1R01NS04938901A1	102,264
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS4064405	91,895
Allergy, Immunology and Transplantation Research	93.855	R01AI05147105	57,497
Allergy, Immunology and Transplantation Research	93.855	AI05147704	132,720
Allergy, Immunology and Transplantation Research	93.855	AI04352406	14,210
Allergy, Immunology and Transplantation Research	93.855	AI043524	209,221
Allergy, Immunology and Transplantation Research	93.855	AI05757102	141,424
Allergy, Immunology and Transplantation Research	93.855	AI06596002	123,616
Microbiology and Infectious Diseases Research	93.856	AI04568603	780
Microbiology and Infectious Diseases Research	93.856	AI05147103	(44)
Microbiology and Infectious Diseases Research	93.856	AI05147104	197,723
Microbiology and Infectious Diseases Research	93.856	AI5147702	85,430
Microbiology and Infectious Diseases Research	93.856	AI054716-01A2	35,207
Microbiology and Infectious Diseases Research	93.856	AI05471602	276,489
Microbiology and Infectious Diseases Research	93.856	AI05757101A2	127,765
Microbiology and Infectious Diseases Research	93.856	AI06596001	155,777
Microbiology and Infectious Diseases Research	93.856	AI06277501	179,733
Microbiology and Infectious Diseases Research	93.856	AI1914913	(318)
Microbiology and Infectious Diseases Research	93.856	AI011914919	3,859
Microbiology and Infectious Diseases Research	93.856	AI1914920	177,053

**MEDICAL UNIVERSITY OF OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

<b>AGENCY</b>	<b>CFDA #</b>	<b>AGENCY NUMBER</b>	<b>FY2006</b>
Biomedical Research and Research Training	93.859	GM02528031	34
Biomedical Research and Research Training	93.859	GM02528032	129,964
Biomedical Research and Research Training	93.859	GM02528033	113,244
Biomedical Research and Research Training	93.859	GM06476705	(643)
Biomedical Research and Research Training	93.859	GM06476706	195,831
Biomedical Research and Research Training	93.859	GM06476503	(9,182)
Biomedical Research and Research Training	93.859	GM06476504	241,046
Child Health and Human Development Extramural Research	93.865	HD02442515	334
Child Health and Human Development Extramural Research	93.865	HD043171-02	27,021
Child Health and Human Development Extramural Research	93.865	HD03979104	(2,262)
Child Health and Human Development Extramural Research	93.865	HD03979105	211,528
Child Health and Human Development Extramural Research	93.865	HD04025402	7,052
Aging Research	93.866	AG015978-04	(713)
Aging Research	93.866	AG1597805	(62,853)

**Pass through:**

**Department of Health and Human Services**

Oral Diseases and Disorders Research	93.121	DE0773419	(5,709)
Oral Diseases and Disorders Research	93.121	DE0773419	7,202
Oral Diseases and Disorders Research	93.121	DE0773419	3,088
Oral Diseases and Disorders Research	93.121	DE1475602	-
Oral Diseases and Disorders Research	93.121	DE1475603	(8,028)
Oral Diseases and Disorders Research	93.121	DE1475604	97,386
Oral Diseases and Disorders Research	93.121	DE1475605	110
Research Related to Deafness and Communication Disorders	93.173	DC0325807	(6,289)
Cancer Cause and Prevention Research	93.393	CA07261305	5,114
Cancer Cause and Prevention Research	93.393	CA07261306	7,539
Cancer Cause and Prevention Research	93.393	CA7692305	6,986
Cancer Treatment Research	93.395	U10CA13539	(9)
Cancer Treatment Research	93.395	CA7658106	(14)
Cancer Treatment Research	93.395	CA7658107	(252)
Cancer Treatment Research	93.395	CA7658108	22,124
Cancer Treatment Research	93.395	CA9854302	9,559
Cancer Treatment Research	93.395	CA9854302	3,877
Cancer Treatment Research	93.395	C10087403	108
Cancer Treatment Research	93.395	CA09567301A1	35,227
Cancer Treatment Research	93.395	CA10284702	3,211
Cancer Control	93.399	2U10CA3541517	9,746
Heart and Vascular Diseases Research	93.837	HL6374701A2	7,210
Heart and Vascular Diseases Research	93.837	03MYO011	460
Lung Diseases Research	93.838	NO1HC9518106	181,886
Lung Diseases Research	93.838	HC95181	170,487
Lung Diseases Research	93.838	1HC9518105	(386)
Kidney Diseases, Urology and Hematology Research	93.849	RR1079910A 2	28,117
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS3664301A1	1,269
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS3716707	75
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS045719	6,667
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS04437001A2	21,210
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS3343009	22,693
Allergy, Immunology and Transplantation Research	93.855	AI5049804	(485)
Allergy, Immunology and Transplantation Research	93.855	AI05049805	2,333
Allergy, Immunology and Transplantation Research	93.855	AI05049806	25,018
Microbiology and Infectious Diseases Research	93.856	AI5091002	37,921
Microbiology and Infectious Diseases Research	93.856	1AI01A1	531
Microbiology and Infectious Diseases Research	93.856	AI1914920	21,354
Microbiology and Infectious Diseases Research	93.856	A13723209	3,822
Specially Selected Health Projects	93.888	6D1BTH03740101	56,193
National Institutes of Health	93.051PS	051PS	24,872
National Institutes of Health	93.A064500008892	A064500008892	5,466
National Institutes of Health	93.N01AI30025	N01AI30025	471
National Institutes of Health	93.NS049048	NS049048	77,868
National Institutes of Health	93.OH00843201	OH00843201	6,388
National Institutes of Health	93.R10377104	R10377104	1,940

**MEDICAL UNIVERSITY OF OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

<b>AGENCY</b>	<b>CFDA #</b>	<b>AGENCY NUMBER</b>	<b>FY2006</b>
<b>National Science Foundation</b>			
Biological Sciences	47.074	MCB0516692	116,722
<b>Department of Agriculture</b>			
Grants for Agricultural Research, Special Research Grants	10.200	20053889803269	104,443
Grants for Agricultural Research, Special Research Grants	10.200	20053890302315	216,494
<b>Total Research and Development</b>			<b>14,607,735</b>
<b>OTHER:</b>			
<b>Department of Health and Human Services</b>			
Model State-Supported Area Health Education Centers	93.107	U77HP03029110	363,656
Model State-Supported Area Health Education Centers	93.107	U77HP030291201	364,680
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA230120500	55,387
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA230120600	364,972
Allied Health Special Projects	93.191	HP0085602	(180)
Allied Health Special Projects	93.191	D37HP0085603	15,960
Occupational Safety and Health Training Grants	93.263	OCCT52399901	(652)
Drug Abuse National Research Service Awards	93.278	DA01414205	34,699
Drug Abuse National Research Service Awards	93.278	DA1414206	4,123
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	OH00860501	39,381
Advanced Education Nursing Traineeships	93.358	HP0000406	40,960
Cancer Research Manpower	93.398	CA117242-01	37,688
Microbiology and Infectious Diseases Research	93.856	F31A106412901A1	32,512
Grants for Training in Primary Care Medicine and Dentistry	93.884	HP0002005	(19,153)
Grants for Training in Primary Care Medicine and Dentistry	93.884	D56HP000200600	117,824
Grants for Training in Primary Care Medicine and Dentistry	93.884	D58HP033690100	(2,103)
Grants for Training in Primary Care Medicine and Dentistry	93.884	HP0336902	55,815
Health Care and Other Facilities	93.887	C76HF05622	638,343
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	HA007320300	(4)
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA007320400	369,617
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA0073205	105,517
Scholarships for health Professions Students from Disadvantaged Backgrounds	93.925	HP047470100	103,579
Academic Administrative Units in Primary Care	93.984	HP0009603	6,843
<b>National Science Foundation</b>			
Education and Human Resources	47.076	DUE0442779	89,731
<b>Pass through:</b>			
Special Education-Grants for Infants and Families with Disabilities	84.181	4840011HB05	7,670
Special Education-Grants for Infants and Families with Disabilities	84.181	4840011HB05	25,303
National Family Caregiver Support	93.052	F2004188	(387)
National Family Caregiver Support	93.052	S2006105	19,367
Biological Response to Environmental Health Hazards	93.113	5R25ES1070503	(2,938)
HIV Prevention Activities-Health Department Based	93.940	220509	(1,827)
HIV Prevention Activities-Health Department Based	93.940	S2005170	12,736
HIV Prevention Activities-Health Department Based	93.940	R1073711	13,307
HIV Prevention Activities-Health Department Based	93.940	N10130301	4,238
HIV Prevention Activities-Health Department Based	93.940	N10130701	4,343
Block Grants for Community Mental Health Services	93.958	MCO04CCOE	(6,741)
Geriatric Education Centers	93.969	HP7011305	1,360
Geriatric Education Centers	93.969	2D31HP7011306	39,972
Maternal and Child Health Services Block Grant to the States	93.994	WPOVJH12072004	9,450
Maternal and Child Health Services Block Grant to the States	93.994	4840011AU05	2,219
Maternal and Child Health Services Block Grant to the States	93.994	4840011AU06	164,560
Adolescent Family Life-Demonstration Projects	93.995	APHP0008360600	71,917
Adolescent Family Life-Demonstration Projects	93.995	APHPA0008360600	54,211
National Institutes of Health	93.N10100701	N10100701	44,929
National Institutes of Health	93.X20055173	X2005173	6,768
<b>Total Other</b>			<b>3,289,650</b>
Community Mental Health Services Federal	93.958		760,235
<b>Total Expenditures of Federal Awards</b>			<b>18,924,277</b>

MEDICAL UNIVERSITY OF OHIO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2006

**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 ended June 30, 2006, totaled \$19,864,233.

**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, 2006, outstanding loans under both programs totaled \$895,508.

**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, 2006, outstanding Perkins loans totaled \$3,372,890.

## 5. Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amounts provided to subrecipients</u>
<b>Research &amp; Development Cluster:</b>		
Glutamate Receptor Plasticity	93.279	\$ 14,765
Validation in RNA Specimens	93.394	9,297
Gene Expression Facility	93.394	4,000
Photo Therapy Prostate Cancer	93.395	2,084
Aerobic Running QTL's	93.837	20,711
CORAL	93.837	562,030
Functional Genomic Dissection	93.837	114,935
Control Mechanisms of Cardiac	93.837	222,861
AAV Rep Protein Function	93.856	1,127
Regulon Across Genera	93.856	165,763
RNA Virus Evolution	93.856	47,699
Coccidioides Cell Types	93.856	90,121
Cyclic & Linear Antagonists	93.859	94,911
WA #2/U of C, Irvine Sub	93.261200433000C	110,976
WA #3/Wash U Sub	93.261200433000C	168,379
WA #4/U of C Irvine Sub	93.261200433000C	162,042
Lung Tumors in Mice WS90	93.CN25106	80,333
Colon Lesions & Normal Mucosa	93.CN25126	46,666
Chemopreventive Agents WS#92	93.CN35116	111,127
<b>Other Federal Awards:</b>		
Model State Supported AHEC	93.107	554,968
Geriatric and End-of-Life Care	93.884	1,325
Anatomy Revealed - Sensory	47.076	10,790
Women's Health Month	93.994	7,180
Total		<b>\$ 2,604,090</b>

MEDICAL UNIVERSITY OF OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

**Part I - Summary of Auditor's Results**

**Financial Statement Section**

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

**Federal and State Awards Section**

- (viii) Dollar threshold used to determine Type A programs:   \$567,728
- (ix) Auditee qualified as low-risk auditee?   X   yes        no
- (v) Type of auditor's report on compliance for major programs: unqualified
- (iv) Internal control over compliance:
- Material weakness(es) identified?        yes   X   no
- Were reportable condition(s) identified not considered  
to be material weakness(es)?        yes   X   none  
reported
- (vi) Any audit findings disclosed that are required to be reported  
in accordance with Circular A-133 (Section .510(a))?        yes   X   no
- (vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.958	Community Mental Health Services
93.887	HRSA Imaging Center
Various	Research & Development 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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800-282-0370

Facsimile 614-466-4490

**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 7, 2006**