

MEDICAL COLLEGE OF OHIO  
LUCAS COUNTY  
JULY 1, 1999 TO JUNE 30, 2000  
DONE BY: ERNST & YOUNG LLP



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees  
Medical College of Ohio  
Toledo, Ohio 43614

We have reviewed the Independent Auditor's Report of the Medical College of Ohio, Lucas County, prepared by Ernst & Young LLP, for the audit period July 1, 1999 through June 30, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Medical College of Ohio is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

November 28, 2000

REPORT OF INDEPENDENT AUDITORS  
ON BASIC FINANCIAL STATEMENTS AND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSBoard of Trustees  
Medical College of Ohio

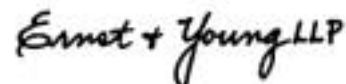
We have audited the accompanying balance sheets of the Medical College of Ohio (see Note 1) as of June 30, 2000 and 1999, and the related statements of current funds revenues, expenditures and other changes and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical College of Ohio as of June 30, 2000 and 1999, its current funds revenues, expenditures and other changes, and the changes in its fund balances for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated September 29, 2000, on our consideration of the Medical College of Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Medical College of Ohio taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2000, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



September 29, 2000

MEDICAL COLLEGE OF OHIO  
Balance Sheets  
As of June 30, 2000 and 1999

ASSETS

|   | 2000                | June 30,<br>1999    |
|---|---------------------|---------------------|
| <b>Current Funds</b>                              |                     |                     |
| <b>Unrestricted-Educational and General</b>       |                     |                     |
| Pooled Cash and Investments                       | \$ 6,270,441        | \$ 5,439,285        |
| Accounts Receivable                               | 3,385,385           | 3,396,977           |
| Inventories, at Cost                              | 40,834              | 119,694             |
| Prepaid Expense                                   | 117,927             | 414,039             |
|   | <u>\$ 9,814,587</u> | <u>\$ 9,329,995</u> |
| <b>Total Unrestricted-Educational and General</b> | <b>\$ 9,814,587</b> | <b>\$ 9,329,995</b> |
| <b>Designated - Educational and General</b>       |                     |                     |
| Pooled Cash and Investments                       | \$ 6,997,436        | \$ 6,095,406        |
| Accounts Receivable                               | 169,036             | 172,438             |
|   | <u>\$ 7,166,472</u> | <u>\$ 6,267,844</u> |
| <b>Total Designated - Educational and General</b> | <b>\$ 7,166,472</b> | <b>\$ 6,267,844</b> |
| <b>Enterprise Operations</b>                      |                     |                     |
| Pooled Cash and Investments                       | \$ 653,334          | \$ 797,614          |
| Accounts Receivable                               | 117,802             | 118,555             |
| Inventories, at Cost                              | 411,303             | 417,761             |
| Prepaid Expense                                   |                     | 24,089              |
|   | <u>\$ 1,182,439</u> | <u>\$ 1,358,019</u> |
| <b>Total Enterprise Operations</b>                | <b>\$ 1,182,439</b> | <b>\$ 1,358,019</b> |
| <b>Subsidized Programs</b>                        |                     |                     |
| Pooled Cash and Investments                       | \$ 343,410          | \$ 219,827          |
| Prepaid Expense                                   | -                   | 67,627              |
|   | <u>\$ 343,410</u>   | <u>\$ 287,454</u>   |
| <b>Total Subsidized Programs</b>                  | <b>\$ 343,410</b>   | <b>\$ 287,454</b>   |

LIABILITIES AND FUND BALANCES

|   | 2000                | June 30,<br>1999    |
|---|---------------------|---------------------|
| <b>Current Funds</b>                              |                     |                     |
| <b>Unrestricted-Educational and General</b>       |                     |                     |
| Accounts Payable                                  | \$ 66,200           | \$ 234,388          |
| Accrued Liabilities                               | 10,833,759          | 13,301,069          |
| Fund Balance:                                     |                     |                     |
| Allocated for Early Retirement Incentive          | (1,343,394)         | (2,407,852)         |
| Reserved for Encumbrances                         | 66,347              | 901,079             |
| Unreserved  | 191,675             | (2,698,689)         |
| Total Fund Balance                                | <u>(1,085,372)</u>  | <u>(4,205,462)</u>  |
| <b>Total Unrestricted-Educational and General</b> | <b>\$ 9,814,587</b> | <b>\$ 9,329,995</b> |
| <b>Designated - Educational and General</b>       |                     |                     |
| Accounts Payable                                  | \$ 1,740            | \$ 31,603           |
| Fund Balance:                                     |                     |                     |
| Reserved for Encumbrances                         | 22,837              | 134,876             |
| Unreserved  | 7,141,895           | 6,101,165           |
| Total Fund Balance                                | <u>7,164,732</u>    | <u>6,236,041</u>    |
| <b>Total Designated - Educational and General</b> | <b>\$ 7,166,472</b> | <b>\$ 6,267,844</b> |
| <b>Enterprise Operations</b>                      |                     |                     |
| Accounts Payable                                  | \$ 253,734          | \$ 176,430          |
| Accrued Liabilities                               | 398,566             | 559,941             |
| Fund Balance                                      | 530,139             | 621,948             |
|   | <u>\$ 1,182,439</u> | <u>\$ 1,358,319</u> |
| <b>Total Enterprise Operations</b>                | <b>\$ 1,182,439</b> | <b>\$ 1,358,319</b> |
| <b>Subsidized Programs</b>                        |                     |                     |
| Accounts Payable                                  | \$ 4,392            | \$ 131,517          |
| Accrued Liabilities                               | 339,018             | 155,937             |
|   | <u>\$ 343,410</u>   | <u>\$ 287,454</u>   |
| <b>Total Subsidized Programs</b>                  | <b>\$ 343,410</b>   | <b>\$ 287,454</b>   |

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

MEDICAL COLLEGE OF OHIO  
Balance Sheets  
As of June 30, 2000 and 1999

ASSETS

|  | June 30,             |                      |
|--|----------------------|----------------------|
|  | 2000                 | 1999                 |
| <b>Restricted</b>  |                      |                      |
| Pooled Cash and Investments  | \$ 2,472,757         | \$ 2,714,997         |
| Accounts Receivable  | 1,704,714            | 1,750,108            |
| <b>Total Restricted</b>  | <u>\$ 4,177,471</u>  | <u>\$ 4,465,095</u>  |
| <b>Total Current Funds - College</b>   | <u>\$ 22,684,379</u> | <u>\$ 21,708,707</u> |
| <b>Current Funds</b>   |                      |                      |
| Unrestricted-Hospital  |                      |                      |
| Pooled Cash and Investments  | \$ 10,294,275        | \$ 20,005,869        |
| Investments Held in Trust  | 1,748,583            | 1,677,185            |
| Accounts Receivable (Less Allowances of \$4,165,000 in 2000 and \$3,655,000 in 1999) | 28,811,576           | 29,492,533           |
| Inventories, at Cost   | 3,180,868            | 2,379,320            |
| Prepaid Expense  | 245,838              | 553,518              |
| <b>Total Unrestricted-Hospital</b>   | <u>\$ 44,281,138</u> | <u>\$ 54,108,425</u> |
| <b>Designated - Hospital</b>   |                      |                      |
| Pooled Cash and Investments  | \$ 50,783            | \$ 103,640           |
| <b>Total Designated - Hospital</b>   | <u>\$ 50,783</u>     | <u>\$ 103,640</u>    |
| <b>Total Current Funds - Hospital</b>  | <u>\$ 44,331,921</u> | <u>\$ 54,212,065</u> |
| <b>Total Current Funds</b>   | <u>\$ 67,016,300</u> | <u>\$ 75,920,772</u> |

LIABILITIES AND FUND BALANCES

|                                       | June 30,             |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2000                 | 1999                 |
| <b>Restricted</b>                     |                      |                      |
| Accounts Payable                      | \$ 338,630           | \$ 328,895           |
| Accrued Liabilities                   | 1,050,962            | 1,438,931            |
| Fund Balance:                         |                      |                      |
| Reserved for Encumbrances             | 125,218              | 123,332              |
| Unreserved                            | 2,662,641            | 2,573,937            |
| <b>Total Fund Balance</b>             | <u>2,787,859</u>     | <u>2,697,269</u>     |
| <b>Total Restricted</b>               | <u>\$ 4,177,471</u>  | <u>\$ 4,465,095</u>  |
| <b>Total Current Funds - College</b>  | <u>\$ 22,684,379</u> | <u>\$ 21,708,707</u> |
| <b>Current Funds</b>                  |                      |                      |
| Unrestricted-Hospital                 |                      |                      |
| Accounts Payable                      | \$ 5,987,161         | \$ 6,275,433         |
| Accrued Liabilities                   | 12,270,372           | 15,108,626           |
| Fund Balance:                         |                      |                      |
| Reserved for Encumbrances             | 858,078              | 444,139              |
| Unreserved                            | 25,165,527           | 32,280,227           |
| <b>Total Fund Balance</b>             | <u>26,023,605</u>    | <u>32,724,365</u>    |
| <b>Total Unrestricted-Hospital</b>    | <u>\$ 44,281,138</u> | <u>\$ 54,108,425</u> |
| <b>Designated - Hospital</b>          |                      |                      |
| Accrued Liabilities                   | \$ 6,423             | \$ 4,192             |
| Fund Balance                          | 44,360               | 99,448               |
| <b>Total Designated - Hospital</b>    | <u>\$ 50,783</u>     | <u>\$ 103,640</u>    |
| <b>Total Current Funds - Hospital</b> | <u>\$ 44,331,921</u> | <u>\$ 54,212,065</u> |
| <b>Total Current Funds</b>            | <u>\$ 67,016,300</u> | <u>\$ 75,920,772</u> |

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

MEDICAL COLLEGE OF OHIO  
Balance Sheets  
As of June 30, 2000 and 1999

LIABILITIES AND FUND BALANCES

ASSETS

|                                    | June 30,<br>2000      | June 30,<br>1999      |
|------------------------------------|-----------------------|-----------------------|
| <b>Plant Funds</b>                 |                       |                       |
| <b>Unexpended</b>                  |                       |                       |
| Pooled Cash and Investments        | \$ 6,266,200          | \$ 6,360,625          |
| Accounts Receivable                | \$ 326,686            | -                     |
|                                    | <u>          </u>     | <u>          </u>     |
| <b>Total Unexpended</b>            | <b>\$ 6,594,886</b>   | <b>\$ 6,360,625</b>   |
| <b>Investment in Plant</b>         |                       |                       |
| Land and Improvements              | \$ 3,415,550          | \$ 3,216,662          |
| Buildings and Fixtures             | 200,041,524           | 189,267,624           |
| Equipment, Furniture, and Vehicles | 103,158,029           | 95,156,793            |
| Construction in Progress           | 12,500,977            | 23,072,811            |
|                                    | <u>          </u>     | <u>          </u>     |
| <b>Total Investment in Plant</b>   | <b>\$ 319,116,080</b> | <b>\$ 310,713,910</b> |
| <b>Total Plant Funds</b>           | <b>\$ 325,710,966</b> | <b>\$ 317,074,535</b> |
| <b>Loan Fund</b>                   |                       |                       |
| Pooled Cash and Investments        | \$ 678,655            | \$ 528,017            |
| Notes Receivable                   | 5,254,111             | 5,099,466             |
|                                    | <u>          </u>     | <u>          </u>     |
| <b>Total Loan Fund</b>             | <b>\$ 5,932,766</b>   | <b>\$ 5,628,483</b>   |
|                                    |                       |                       |
|                                    | <u>          </u>     | <u>          </u>     |
|                                    | <b>\$ 319,116,080</b> | <b>\$ 310,713,910</b> |
|                                    | <u>          </u>     | <u>          </u>     |
|                                    | <b>\$ 325,710,966</b> | <b>\$ 317,074,535</b> |
|                                    |                       |                       |
|                                    | <u>          </u>     | <u>          </u>     |
|                                    | <b>\$ -</b>           | <b>\$ 418</b>         |
|                                    |                       |                       |
|                                    | 5,374,007             | 5,092,474             |
|                                    | 578,364               | 543,631               |
|                                    | <u>(19,605)</u>       | <u>(8,040)</u>        |
|                                    | <b>\$ 5,932,766</b>   | <b>\$ 5,628,483</b>   |

**Statement of Current Funds Revenues, Expenditures and Other Changes**  
Year Ended June 30, 2000

|  | Unrestricted            |                        |                       |                       |                     | Restricted        |                       | Total Current Funds |                         |
|--|-------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|-----------------------|---------------------|-------------------------|
|  | Educational and General | Educational Designated | Enterprise Operations | Hospital              | Hospital Designated | Subsized Programs | Total Unrestricted    |                     | Educational and General |
| <b>Revenues</b>  |                         |                        |                       |                       |                     |                   |                       |                     |                         |
| Tuition, Fees and Other Student Charges                  | \$ 10,808,086           |                        |                       |                       |                     |                   | \$ 10,808,086         | \$ -                | \$ 10,808,086           |
| State Appropriations                                     | 37,041,258              |                        |                       |                       |                     |                   | 37,041,258            |                     | 37,041,258              |
| Federal Grants and Contracts                             | 2,943,056               |                        |                       |                       |                     |                   | 2,943,056             | 12,228,012          | 15,171,068              |
| State Grants and Contracts                               |                         |                        |                       |                       |                     |                   |                       | 5,845,025           | 5,845,025               |
| Private Gifts, Grants and Contracts                      |                         | \$ 7,120,334           |                       |                       |                     |                   | 7,120,334             | 1,629,177           | 8,749,511               |
| Sales and Services                                       | 4,166,331               |                        | \$ 4,225,178          | \$ 139,967,123        | \$ 78,136           |                   | 148,436,768           |                     | 148,436,768             |
| Residency Reimbursement                                  | 3,284,085               |                        |                       | 967,206               |                     |                   | 3,284,085             |                     | 3,284,085               |
| Investment Income  | 392,934                 |                        |                       |                       |                     |                   | 392,934               |                     | 1,360,140               |
| Nursing Instruction                                      | 2,532,487               |                        |                       |                       |                     |                   | 2,532,487             |                     | 2,532,487               |
| Physical Therapy   | 1,128,861               |                        |                       |                       |                     |                   | 1,128,861             |                     | 1,128,861               |
| Other  | 863,819                 |                        |                       | 6,047,609             |                     |                   | 6,911,428             |                     | 6,911,428               |
| <b>Total Revenues</b>                                    | <b>63,160,927</b>       | <b>7,120,334</b>       | <b>4,225,178</b>      | <b>146,981,938</b>    | <b>78,136</b>       | <b>-</b>          | <b>221,566,513</b>    | <b>19,702,214</b>   | <b>241,268,727</b>      |
| <b>Expenditures</b>                                      |                         |                        |                       |                       |                     |                   |                       |                     |                         |
| Educational and General:                                 |                         |                        |                       |                       |                     |                   |                       |                     |                         |
| Instruction and Department Research                      | 38,094,737              | 4,093,009              |                       |                       |                     |                   | 42,187,746            | 1,877,130           | 44,064,876              |
| Separately Budgeted Research                             |                         | 733,495                |                       |                       |                     |                   | 733,495               | 12,036,524          | 12,770,019              |
| Public Service   |                         | 12,486                 |                       |                       |                     |                   | 12,486                | 367,008             | 379,494                 |
| Academic Support   | 2,993,654               | 579,195                |                       |                       |                     |                   | 3,572,749             |                     | 3,572,749               |
| Student Services   | 1,182,017               | 371,186                |                       |                       |                     |                   | 1,553,203             | 130,033             | 1,683,236               |
| Institutional Support                                    | 10,520,416              | 823,375                |                       |                       |                     |                   | 11,443,791            | 153,057             | 11,596,848              |
| Scholarships and Fellowships                             | 881,678                 | 2,500                  |                       |                       |                     |                   | 884,178               | 98,219              | 982,397                 |
| Plant Operations and Maintenance                         | 5,447,618               | 3,337                  |                       |                       |                     |                   | 5,450,955             | 4,691,691           | 10,142,646              |
| Hospital   |                         |                        |                       | 138,235,004           | 122,646             | \$ 3,034,775      | 141,392,425           |                     | 141,392,425             |
| College Auxiliary  |                         |                        | 4,236,596             |                       |                     |                   | 4,236,596             |                     | 4,236,596               |
| <b>Total Expenditures</b>                                | <b>59,100,020</b>       | <b>6,718,583</b>       | <b>4,236,596</b>      | <b>138,235,004</b>    | <b>122,646</b>      | <b>3,034,775</b>  | <b>211,447,824</b>    | <b>19,353,662</b>   | <b>230,801,285</b>      |
| <b>Nonmandatory Transfers and Additions (Deductions)</b> |                         |                        |                       |                       |                     |                   |                       |                     |                         |
| Net Decrease in Fair Value of Investments                | (115,878)               | (117,718)              | (4,801)               | (251,543)             | (299)               |                   | (490,239)             | (45,072)            | (535,311)               |
| Excess of Restricted Receipts Over Expenditures          |                         |                        |                       |                       |                     |                   |                       | 90,590              | 90,590                  |
| Capital Additions  | (2,077,715)             | (1,058,222)            | (3,706)               | (8,103,878)           | (6,342)             | (30,090)          | (12,279,953)          | (451,055)           | (12,731,008)            |
| Allocated Retirement Incentive Transfers:                | (1,064,457)             |                        |                       |                       |                     |                   | (1,064,457)           |                     | (1,064,457)             |
| Subsized Program   |                         |                        |                       | (4,632,490)           | (3,937)             | 4,632,490         |                       |                     |                         |
| Other Transfers  | 1,252,775               | 1,702,880              | (71,884)              | (1,459,784)           | (3,937)             | (1,567,625)       | (147,575)             | 147,575             |                         |
| <b>Net Increase (Decrease) in Fund Balance</b>           | <b>\$ 2,055,632</b>     | <b>\$ 928,691</b>      | <b>\$ (91,809)</b>    | <b>\$ (6,700,761)</b> | <b>\$ (55,088)</b>  | <b>\$ -</b>       | <b>\$ (3,863,335)</b> | <b>\$ 90,590</b>    | <b>\$ (3,772,745)</b>   |

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

**MINNESOTA STATE UNIVERSITY**  
**Statement of Current Funds Revenues, Expenditures and Other Changes**  
**Year Ended June 30, 1999**

|  | Unrestricted            |                        |                       |                        |                     | Restricted          |                        | Total Current Funds    |
|--|-------------------------|------------------------|-----------------------|------------------------|---------------------|---------------------|------------------------|------------------------|
|  | Educational and General | Educational Designated | Enterprise Operations | Hospital               | Hospital Designated | Subsidized Programs | Total Unrestricted     |                        |
| <b>Revenues</b>  |                         |                        |                       |                        |                     |                     |                        |                        |
| Tuition, Fees and Other Student Charges                  | \$ 9,948,105            |                        |                       |                        |                     |                     | \$ 9,948,105           | \$ -                   |
| State Appropriations                                     | 35,647,653              |                        |                       |                        |                     |                     | 35,647,653             |                        |
| Federal Grants and Contracts                             | 2,818,789               |                        |                       |                        |                     |                     | 2,818,789              | 10,894,130             |
| State Grants and Contracts                               |                         |                        |                       |                        |                     |                     |                        | 3,336,222              |
| Private Gifts, Grants and Contracts                      |                         |                        |                       |                        |                     |                     |                        | 1,667,358              |
| Sales and Services                                       | 3,300,921               | \$ 6,867,560           | \$ 4,645,036          | \$ 142,755,209         | \$ 138,019          |                     | 150,839,185            | 4,983,947              |
| Residency Reimbursement                                  | 4,583,947               |                        |                       |                        |                     |                     | 4,583,947              | 2,750,881              |
| Investment Income  | 516,660                 |                        |                       | 2,234,221              |                     |                     | 2,527,548              | 2,527,548              |
| Nursing Instruction                                      | 2,527,548               |                        |                       |                        |                     |                     | 2,527,548              | 1,145,068              |
| Physical Therapy   | 1,145,068               |                        |                       |                        |                     |                     | 1,145,068              | 7,150,495              |
| Other  | 1,016,956               |                        |                       | 6,133,539              |                     |                     | 7,150,495              |                        |
| <b>Total Revenues</b>                                    | <b>61,505,647</b>       | <b>6,867,560</b>       | <b>4,645,036</b>      | <b>151,122,969</b>     | <b>138,019</b>      | <b>-</b>            | <b>224,279,251</b>     | <b>15,887,708</b>      |
| <b>Expenditures</b>                                      |                         |                        |                       |                        |                     |                     |                        |                        |
| Educational and General:                                 |                         |                        |                       |                        |                     |                     |                        |                        |
| Instruction and Department Research                      | 37,961,175              | 2,928,803              |                       |                        |                     |                     | 40,890,978             | 1,587,993              |
| Separately Budgeted Research                             |                         | 518,011                |                       |                        |                     |                     | 518,011                | 10,622,413             |
| Public Service   |                         | 32,376                 |                       |                        |                     |                     | 32,376                 | 299,164                |
| Academic Support   | 2,924,583               | 577,863                |                       |                        |                     |                     | 3,502,446              | 3,502,446              |
| Student Services   | 1,144,925               | 301,561                |                       |                        |                     |                     | 1,446,486              | 1,607,481              |
| Institutional Support                                    | 12,277,503              | 729,811                |                       |                        |                     |                     | 13,007,314             | 13,172,824             |
| Scholarships and Fellowships                             | 1,007,233               |                        |                       |                        |                     |                     | 1,007,233              | 89,384                 |
| Plant Operations and Maintenance                         | 5,382,342               | 45,484                 |                       |                        |                     |                     | 5,427,826              | 7,558,812              |
| Hospital   |                         |                        |                       | 139,277,883            | 161,109             | \$ 2,593,613        | 142,032,605            | 2,130,965              |
| College Auxiliary  |                         |                        | 4,615,194             |                        |                     |                     | 4,615,194              | 4,615,194              |
| <b>Total Expenditures</b>                                | <b>60,687,761</b>       | <b>5,133,909</b>       | <b>4,615,194</b>      | <b>139,277,883</b>     | <b>161,109</b>      | <b>2,593,613</b>    | <b>212,478,469</b>     | <b>15,056,455</b>      |
| <b>Nonmandatory Transfers and Additions (Deductions)</b> |                         |                        |                       |                        |                     |                     |                        |                        |
| Net Decrease in Fair Value of Investments                | (179,260)               | (218,422)              | (25,265)              | (619,189)              | (3,603)             |                     | (1,045,739)            | (84,712)               |
| Excess of Restricted Receipts Over Expenditures          |                         |                        |                       |                        |                     |                     |                        | 521,702                |
| Capital Additions  | (8,461,251)             | (590,271)              | (47,074)              | (21,191,428)           | (3,010)             |                     | (28,293,034)           | (28,036,879)           |
| Allocated Retirement Incentive Transfers:                |                         |                        |                       |                        |                     |                     |                        |                        |
| Subsidized Program                                       | (100,000)               |                        |                       | (4,393,613)            |                     | 4,493,613           |                        |                        |
| Other Transfers  | 3,177,726               | 1,134,314              | (1,735)               | (2,287,131)            | (15,766)            | (1,900,000)         | 97,408                 | (97,408)               |
| <b>Net Increase (Decrease) in Fund Balance</b>           | <b>\$ (3,819,356)</b>   | <b>\$ 2,059,282</b>    | <b>\$ (44,232)</b>    | <b>\$ (16,656,275)</b> | <b>\$ (45,469)</b>  | <b>\$ -</b>         | <b>\$ (18,506,040)</b> | <b>\$ 426,990</b>      |
|  |                         |                        |                       |                        |                     |                     |                        | <b>\$ (18,079,050)</b> |

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



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

|   | Current Funds |            |               |           |           | Restricted         |              |                         | Plant Funds         |              |                |                     |
|---|---------------|------------|---------------|-----------|-----------|--------------------|--------------|-------------------------|---------------------|--------------|----------------|---------------------|
|   | Unrestricted  |            | Hospital      |           |           | Total Unrestricted |              | Educational and General | Total Current Funds | Loan Fund    | Unencumbered   | Investment in Plant |
| <b>Revenues and Other Additions</b>                   |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Unrestricted Current Fund Revenues                    |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| State Capital Appropriations                          |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Federal Grants and Contracts                          |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| State Grants and Contracts                            |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Private Gifts, Grants and Contracts                   |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Investment Income                                     |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Interest on Loans Receivable                          |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Additions to Plant Facilities                         |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| <b>Total Revenues and Other Additions</b>             |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| 63,190,927  | 7,120,334     | 4,225,176  | 148,981,828   | 78,136    | -         | 221,566,513        | 10,792,804   | 241,259,317             | 327,688             | 2,526,560    | 14,335,184     | 14,335,184          |
| <b>Expenditures and Other Deductions</b>              |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Educational and General Expenditures                  |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Auxiliary Expenditures                                |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Hospital Expenditures                                 |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Expended for Plant Facilities                         |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Net Depreciation and Write-off of Plant Facilities    |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| <b>Total Expenditures and Other Deductions</b>        |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| 59,100,000  | 6,718,583     | 4,236,596  | 138,235,004   | 122,648   | 3,034,775 | 141,392,425        | 19,253,662   | 160,684,890             | 11,621              | 9,548,148    | 6,783,821      | 6,783,821           |
| <b>Transfers Among Funds - Additions (Deductions)</b> |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Nonmandatory  |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Net Decrease in Fair Value of Investments             |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Capital Additions                                     |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Allocated Retirement Incentive Transfers              |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Subsidized Program                                    |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| Other Transfers                                       |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| <b>Total Transfers</b>                                |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| (115,878)   | (117,718)     | (4,801)    | (251,542)     | (299)     | (20,090)  | (496,239)          | (45,072)     | (541,311)               | (11,560)            | (206,073)    | 1,549,415      | 1,549,415           |
| (2,077,715)   | (1,059,222)   | (3,706)    | (8,103,878)   | (8,342)   | (30,090)  | (12,279,923)       | (451,055)    | (12,731,006)            |                     | 11,181,583   |                |                     |
| (1,094,437)   |               |            |               |           |           | (1,094,437)        |              | (1,094,437)             |                     |              |                |                     |
| 1,252,775   | 1,702,890     | (71,884)   | (4,632,480)   | (3,837)   | 4,632,480 | (147,575)          | 147,575      | 0                       |                     |              |                |                     |
| (2,068,278)   | 529,945       | (80,391)   | (15,447,895)  | (10,578)  | 3,034,775 | (13,082,224)       | (348,552)    | (14,330,776)            | (11,560)            | 10,972,520   | 1,549,415      | 1,549,415           |
| 2,055,832   | 628,691       | (91,809)   | (8,700,781)   | (55,668)  |           | (3,863,356)        | 99,580       | (3,772,745)             | 304,701             | 3,950,932    | 9,100,778      | 9,100,778           |
| (1,787,810)   | 6,239,041     | 621,948    | 32,734,360    | 99,448    |           | 37,884,183         | 2,697,269    | 40,581,452              | 5,629,085           | (296,898)    | 307,830,523    | 307,830,523         |
| <b>Fund Balances at Beginning of the Year</b>         |               |            |               |           |           |                    |              |                         |                     |              |                |                     |
| \$ 258,022  | \$ 7,164,732  | \$ 530,139 | \$ 26,072,805 | \$ 44,360 | \$ -      | \$ 34,020,858      | \$ 2,787,859 | \$ 36,808,717           | \$ 5,032,786        | \$ 3,654,095 | \$ 318,851,301 | \$ 318,851,301      |

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

MEDICAL COLLEGE OF OHIO  
Statement of Changes in Fund Balance  
Year Ended June 30, 1999

|   | Current Funds      |                  |                     |                     |                      | Restricted              |                      | Plant Funds         |                     |                       |
|---|--------------------|------------------|---------------------|---------------------|----------------------|-------------------------|----------------------|---------------------|---------------------|-----------------------|
|   | Unrestricted       | Hospital         | Hospital Designated | Subsidized Programs | Total Unrestricted   | Educational and General | Total Current Funds  | Loan Fund           | Unassigned          | Investment in Plant   |
| <b>Revenues and Other Additions</b>                   |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Unrestricted Current Fund Revenues                    | \$ 61,505,647      | \$ 4,645,036     | \$ 151,122,969      | \$ 138,019          | \$ 224,279,251       |                         | \$ 224,279,251       | \$ -                | \$ 840,887          | \$ -                  |
| State Capital Appropriations                          |                    |                  |                     |                     |                      | 11,204,814              | 11,204,814           | 211,867             |                     |                       |
| Federal Grants and Contracts                          |                    |                  |                     |                     |                      | 3,288,154               | 3,288,154            | 54,220              |                     |                       |
| State Grants and Contracts                            |                    |                  |                     |                     |                      | 1,946,442               | 1,946,442            |                     | 545,515             |                       |
| Private Gifts, Grants and Contracts                   |                    |                  |                     |                     |                      |                         |                      | 128,816             |                     |                       |
| Investment Income                                     |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Interest on Loans Receivable                          |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Additions to Plant Facilities                         |                    |                  |                     |                     |                      | 16,419,410              | 16,419,410           | 417,832             | 1,386,452           | 30,900,148            |
| <b>Total Revenues and Other Additions</b>             | <b>61,505,647</b>  | <b>4,645,036</b> | <b>151,122,969</b>  | <b>138,019</b>      | <b>224,279,251</b>   | <b>16,419,410</b>       | <b>240,698,661</b>   | <b>417,832</b>      | <b>1,386,452</b>    | <b>30,900,148</b>     |
| <b>Expenditures and Other Deductions</b>              |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Educational and General Expenditures                  | 60,697,762         | 5,133,509        |                     |                     | 65,831,271           | 15,056,455              | 80,888,126           | 2,091               |                     |                       |
| Auxiliary Expenditures                                |                    | 4,815,194        |                     | 2,593,813           | 7,208,807            |                         | 7,208,807            |                     |                     |                       |
| Hospital Expenditures                                 |                    | 139,277,883      |                     | 161,109             | 139,438,992          |                         | 139,438,992          |                     | 26,442,822          |                       |
| Expenditures for Plant Facilities                     |                    |                  |                     |                     |                      | 15,056,455              | 15,056,455           | 2,001               |                     | 12,625,837            |
| Net Disposal and Write-off of Plant Facilities        |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| <b>Total Expenditures and Other Deductions</b>        | <b>60,697,762</b>  | <b>4,815,194</b> | <b>139,277,883</b>  | <b>161,109</b>      | <b>212,479,473</b>   | <b>15,056,455</b>       | <b>227,535,925</b>   | <b>2,001</b>        | <b>26,442,822</b>   | <b>12,625,837</b>     |
| <b>Transfers Among Funds - Additions (Deductions)</b> |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Nonmandatory  |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Net Decrease in Fair Value of Investments             | (179,280)          | (25,265)         | (619,189)           | (2,903)             | (1,045,738)          | (94,712)                | (1,140,451)          | (16,757)            | (201,482)           |                       |
| Capital Additions                                     | (8,481,251)        | (47,074)         | (21,191,428)        | (3,918)             | (29,203,034)         | (743,845)               | (29,036,879)         |                     | 27,852,878          | 1,364,200             |
| Allocated Retirement Incentive                        | (1,094,456)        |                  |                     |                     | (1,094,456)          |                         | (1,094,456)          |                     |                     |                       |
| Transfers:  |                    |                  |                     |                     |                      |                         |                      |                     |                     |                       |
| Subsidized Program                                    | (100,000)          |                  | (4,393,813)         | 4,403,613           | 97,406               |                         | 97,406               |                     |                     |                       |
| Other Transfers                                       | 3,177,726          | (1,725)          | (2,287,131)         | (15,786)            | 97,406               | (87,408)                | 0                    |                     |                     |                       |
| Total Transfers                                       | <b>4,827,241</b>   | <b>(1,725)</b>   | <b>(28,521,261)</b> | <b>2,593,613</b>    | <b>(26,309,821)</b>  | <b>(87,408)</b>         | <b>(31,241,780)</b>  | <b>(16,757)</b>     | <b>27,451,197</b>   | <b>1,364,200</b>      |
| <b>Net Increase (Decrease) for the Year</b>           | <b>(2,819,350)</b> | <b>2,059,292</b> | <b>(18,656,270)</b> | <b>(45,450)</b>     | <b>(18,506,040)</b>  | <b>426,993</b>          | <b>(18,079,050)</b>  | <b>398,784</b>      | <b>394,777</b>      | <b>19,864,509</b>     |
| <b>Fund Balances at Beginning of the Year</b>         | <b>2,021,746</b>   | <b>4,178,749</b> | <b>48,380,641</b>   | <b>144,911</b>      | <b>56,386,233</b>    | <b>2,270,279</b>        | <b>58,656,512</b>    | <b>5,228,281</b>    | <b>(801,643)</b>    | <b>(188,100,014)</b>  |
| <b>Fund Balances at End of the Year</b>               | <b>(1,797,604)</b> | <b>6,238,041</b> | <b>32,724,369</b>   | <b>\$ 99,460</b>    | <b>\$ 37,864,103</b> | <b>\$ 2,697,293</b>     | <b>\$ 40,581,462</b> | <b>\$ 5,628,065</b> | <b>\$ (298,866)</b> | <b>\$ 307,830,523</b> |

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

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting and Reporting Principles**

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

Current funds consist of the educational and general, designated, enterprise, hospital, subsidized programs and restricted funds. These funds include all funds which are available for current general operating purposes. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MCO has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, for its proprietary funds. The designated funds are available for educational or hospital purposes in compliance with management or Board restrictions. The enterprise funds are available for the operation of auxiliary business operations. In 1998, MCO created a subsidized program fund to account for those costs which cannot be specifically allocated and to provide academic support to the College. The restricted funds are available for current operating purposes in compliance with donor and grantor restrictions. Revenues relating to restricted funds are recognized to the extent expended for the specified purpose. Any variance is reflected as an addition (deduction) to the current restricted fund balance.

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

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

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

**Inventories**

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

**Investments**

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

**Property, Plant and Equipment**

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

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

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

**Grants and Contracts**

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

**Income Taxes**

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

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STATE SUPPORT**

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

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

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

**NOTE 3 - RELATED ORGANIZATIONS**

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

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

MCO; accordingly, the accounts of the Foundation are not included in the financial statements of MCO. For the years ended 2000 and 1999, respectively, the Foundation paid approximately \$398,000 and \$334,000 to MCO as reimbursement for personnel and payroll related costs, rent for use of MCO facilities, and other administrative costs.

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

**NOTE 4 - POOLED CASH AND INVESTMENTS**

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

The bank balance of cash deposits was \$1,431,849 at June 30, 2000. Of the balance, up to \$100,000 is insured by federal depository insurance and the remainder is uninsured but collateralized by pools of securities pledged by depository banks and held in the name of the respective banks. Differences between bank balances and carrying values of cash result from checks issued but not presented to the bank for payment.

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

Investments are stated at market value at June 30, 2000 and 1999. Investments are not insured or registered in MCO's name but are held in safekeeping by MCO's custodial bank's trust department whose records identify MCO's ownership. Pooled cash and investments with a maturity of three months or less are considered to be cash equivalents.

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

|                                   | <u>June 30, 2000</u>                       | <u>June 30, 1999</u>                       |
|-----------------------------------|--|--|
|                                   | <u>Market and</u><br><u>Carrying Value</u> | <u>Market and</u><br><u>Carrying Value</u> |
| Cash:                             |  |  |
| Cash Deposits                     | \$ 40,273                                  | \$1,701,542                                |
| Bank Overdrafts                   | (1,718,700)                                | (4,381,775)                                |
| Cash Equivalents:                 |  |  |
| Money Market Funds                | 3,936,699                                  | 167,912                                    |
| Investments:                      |  |  |
| U.S. Government Obligations       | 8,879,221                                  | 16,080,387                                 |
| Corporate Notes                   | 21,411,388                                 | 26,039,446                                 |
| Bond                              | 1,000,140                                  | 1,009,550                                  |
| Bankers Acceptance                | -  | 1,000,000                                  |
| Accrued Interest Receivable       | <u>480,270</u>                             | <u>649,208</u>                             |
| Total Pooled Cash and Investments | <u>\$34,029,291</u>                        | <u>\$42,266,270</u>                        |

Gross unrealized gains and losses on U.S. government obligations, corporate notes and bonds were \$32,911 and \$959,787, respectively, at June 30, 2000.

A summary of cash balances by fund is as follows:

|                                      | <u>Fiscal 2000</u>  | <u>Fiscal 1999</u>  |
|--------------------------------------|---------------------|---------------------|
| Educational and General              | \$ 6,270,441        | \$ 5,439,285        |
| Designated - Educational and General | 6,997,436           | 6,095,406           |
| Enterprise Operations                | 653,334             | 797,614             |
| Subsidized Programs                  | 343,410             | 219,827             |
| Restricted                           | 2,472,757           | 2,714,987           |
| Hospital                             | 10,294,275          | 20,005,869          |
| Designated - Hospital                | 50,783              | 103,640             |
| Plant                                | 6,268,200           | 6,360,625           |
| Loan                                 | <u>678,655</u>      | <u>529,017</u>      |
| Total Pooled Cash and Investments    | <u>\$34,029,291</u> | <u>\$42,266,270</u> |

**NOTE 5 - RETIREMENT PLANS**

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

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

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

percent is added to the calculation for every year over 31 years. Participating employees may retire at age 60 with at least five years of credited service, at age 55 with at least 25 years of credited service or at any age with at least 30 years of credited service. Participating employees retiring with less than 30 years of service or at less than age 65 receive reduced benefits. STRS limits the maximum annual benefit to the greater of 100% of the participant's final average salary or the participant's lifetime contribution plus interest at specified rates matched by an equal amount of employer contributed funds divided by an actuarially determined annuity factor. Retirement benefits vest with five years of credited service. STRS and PERS also provide health care, survivor and disability benefits.

State law provides for employer and employee contributions to STRS and PERS based on actuarially determined rates. The Ohio Retirement Study Council determines the ARP rates and the Ohio Department of Insurance approves ARP carriers. Senate Bill 346 established a revised PERS disability program. PERS members were given the opportunity to elect coverage under the original or revised disability program. Anyone hired after July 29, 1992, is automatically covered under the revised disability program. The revised program was designed to be cost neutral, therefore, does not affect PERS funding. There were no material changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors in fiscal years 2000, 1999, and 1998. The contribution rates for fiscal years 2000, 1999, and 1998, were as follows:

|           | Fiscal<br>2000/1999/1998<br><u>STRS</u> | Fiscal<br>2000/1999/1998<br><u>PERS</u> | Fiscal<br>2000<br><u>ARP-STRS</u> | Fiscal<br>2000<br><u>ARP-PERS</u> |
|-----------|---|---|-----------------------------------|-----------------------------------|
| Employer: | 14.00%                                  | 13.31%                                  | 8%                                | 7.31%                             |
| Employee: | 9.30%                                   | 8.50%                                   | 9.3%                              | 8.5%                              |

Contributions made by employees are as follows:

|          | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|----------|-------------|-------------|-------------|
| STRS     | \$2,205,653 | \$2,497,180 | \$2,412,315 |
| ARP-STRS |             |             | \$ 373,260  |
| PERS     | \$7,096,189 | \$7,319,539 | \$7,098,071 |
| ARP-PERS |             |             | \$ 652,048  |

MCO Retirement costs funded as accrued are as follows:

|          | <u>1998</u>  | <u>1999</u>  | <u>2000</u>  |
|----------|--------------|--------------|--------------|
| STRS     | \$ 3,318,364 | \$ 3,762,494 | \$ 3,573,130 |
| ARP-STRS |              |              | \$ 321,084   |
| PERS     | \$11,121,489 | \$11,475,028 | \$11,028,303 |
| ARP-PERS |              |              | \$ 560,778   |

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

Accrued liabilities include \$1,343,394 and \$2,407,852 at June 30, 2000 and 1999, respectively, related to early retirement incentives. The liability will be paid in annual installments, with interest, through 2001. Educational and general fund balance was allocated for early retirement incentives which will be

**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

transferred to unreserved fund balance as early retirement incentives are incurred. The change in allocated fund balance for fiscal 2000 and 1999, was as follows:

|   | <u>June 30, 2000</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Balance at beginning of year                            | \$(2,407,852)        | \$(3,472,309)        |
| Principal payments made for Early Retirement Incentives | <u>1,064,458</u>     | <u>1,064,457</u>     |
| Balance at end of year                                  | <u>\$(1,343,394)</u> | <u>\$(2,407,852)</u> |

**NOTE 6 - LEASES AND CAPITAL COMMITMENTS**

MCO leases certain facilities and data processing, patient care and other equipment under various noncancelable operating lease agreements. Total operating lease expense was \$872,000 in 2000 and \$1,391,000 in 1999. At June 30, 2000, MCO was committed to future minimum operating lease payments of \$315,000 in 2001, \$281,000 in 2002, \$280,000 in 2003, \$122,000 in 2004, and \$53,000 in 2005.

At the expiration of various patient care equipment leases, MCO has the option to make a termination payment, purchase the equipment at fair market value or extend the lease term. Future minimum operating lease payments include \$437,000 in termination payments related to these lease agreements.

MCO has capital lease obligations of \$2,184,779 and \$2,883,387 at June 30, 2000 and 1999, respectively. The cost of the assets recorded under capital leases as of June 30, 2000, is \$5,950,093.

Minimum lease payments at June 30, 2000, by year and in the aggregate, under capital leases are as follows:

|                                    |                     |
|------------------------------------|---------------------|
| 2001                               | \$ 1,342,386        |
| 2002                               | 545,568             |
| 2003                               | 330,778             |
| 2004                               | 130,003             |
| 2005                               | <u>30,787</u>       |
| Net minimum lease payments         | \$ 2,379,522        |
| Less amounts representing interest | <u>(194,743)</u>    |
| Present value of lease payments    | <u>\$ 2,184,779</u> |

Contracts have been entered into for capital construction projects in an amount approximating \$14,703,000. The estimated cost to complete construction in progress at June 30, 2000, is \$2,145,000, the majority of which will be funded by capital appropriations from the State of Ohio.

**NOTE 7 - HOSPITAL FUNDS**

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



**MEDICAL COLLEGE OF OHIO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

|   | <u>June 30, 2000</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Fund balances reported in the separately issued financial statements of the Medical College Hospitals | \$108,822,777        | \$113,054,712        |
| Add accumulated depreciation  | <u>88,102,605</u>    | <u>81,914,392</u>    |
| Total hospital fund balances included in the accompanying financial statements                        | <u>\$196,925,382</u> | <u>\$194,969,104</u> |
| Hospital fund balances included in:   |                      |                      |
| Current unrestricted funds  | \$ 26,067,965        | \$ 32,823,814        |
| Unexpended plant fund   | 5,036,000            | 1,515,310            |
| Investment in plant   | <u>165,821,417</u>   | <u>160,629,980</u>   |
| Total hospital fund balances included in the accompanying financial statements                        | <u>\$196,925,382</u> | <u>\$194,969,104</u> |

**NOTE 8 - MALPRACTICE MATTERS**

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

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

At June 30, 2000 and 1999, MCO has accrued \$3,003,207 discounted at 6% and \$2,844,707 discounted at 6%, respectively, for asserted and unasserted claims, based on MCO's experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where MCO is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of MCO.

|   | <u>June 30, 2000</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Malpractice Liability at Beginning of Year: | \$2,844,707          | \$2,980,395          |
| Provision for Incurred Claims               | 790,000              | -                    |
| Payments for Claims                         | <u>(631,500)</u>     | <u>(135,688)</u>     |
| Malpractice Liability at End of Year        | <u>\$3,003,207</u>   | <u>\$2,844,707</u>   |

Medical College of Ohio  
 Schedule of Expenditures of Federal Awards  
 Fiscal Year Ended June 30, 2000

|   | Agency | CFDA #     | FY2000<br>Expenditures |
|---|--------|------------|------------------------|
| <b>STUDENT FINANCIAL AID</b>            |        |            |                        |
| HPSL/PCL                                | DHH    | 93.342     | 27,576.00              |
| Exceptional Financial Need EFN          | DHH    | 93.820     | 34,528.00              |
| Scholarships Disadvantaged Students SDS | DHH    | 93.925     | 60,150.00              |
| Federal Perkins Loan Program            | UDE    | 84.038     | 101,139.00             |
| Federal Work Study                      | UDE    | 84.033     | 130,033.12             |
| <b>Total Student Financial Aid</b>      |        |            | <b>\$ 353,426.12</b>   |
| <b>RESEARCH &amp; DEVELOPMENT</b>       |        |            |                        |
| Bureau of Land Management               | DOI    | 15.221     | 223,641.47             |
| Department of the Army                  | DOD    | 12.420     | 59.40                  |
| Environmental Protection Agency         | EPA    | 66.506     | 9,121.35               |
|   | EPA    | 66.500     | 35,174.31              |
|   | EPA    | 66.500     | 1,657.54               |
| National Cancer Institute               | DHH    | 93.CN85147 | 218,186.67             |
|   | DHH    | 93.CN55184 | 143.50                 |
|   | DHH    | 93.CN85146 | 129,712.31             |
|   | DHH    | 93.CN85166 | 192,996.34             |
|   | DHH    | 93.CN95118 | 125,384.07             |
|   | DHH    | 93.CN75102 | 36,093.97              |
|   | DHH    | 93.CN75108 | 108,230.15             |
|   | DHH    | 93.CN75104 | (542.23)               |
|   | DHH    | 93.CN95107 | 109,771.39             |
| National Institutes of Health           | DHH    | 93.398     | 168,733.19             |
|   | DHH    | 93.854     | 160,692.88             |
|   | DHH    | 93.394     | 73,342.59              |
|   | DHH    | 93.867     | 197,239.52             |
|   | DHH    | 93.864     | 293,848.32             |
|   | DHH    | 93.838     | 121,964.58             |
|   | DHH    | 93.821     | 12,400.84              |
|   | DHH    | 93.361     | 327,037.04             |
|   | DHH    | 93.361     | 62,180.44              |
|   | DHH    | 93.855     | 286.32                 |
|   | DHH    | 93.862     | 121,799.76             |
|   | DHH    | 93.837     | 0.01                   |
|   | DHH    | 93.859     | 336,719.67             |
|   | DHH    | 93.856     | 232,995.78             |
|   | DHH    | 93.989     | (38.92)                |
|   | DHH    | 93.859     | 107,270.93             |
|   | DHH    | 93.113     | 44,114.53              |
|   | DHH    | 93.393     | 256,546.70             |
|   | DHH    | 93.396     | 162,475.40             |
|   | DHH    | 93.396     | 103,498.98             |
| DHH                                     | 93.396 | 134,477.41 |                        |
| DHH                                     | 93.868 | 122,443.63 |                        |

Medical College of Ohio  
 Schedule of Expenditures of Federal Awards  
 Fiscal Year Ended June 30, 2000

|  | Agency | CFDA #        | FY2000<br>Expenditures |
|--|--------|---------------|------------------------|
|  | DHH    | 93.837        | 164,707.50             |
|  | DHH    | 93.847        | 43,916.39              |
|  | DHH    | 93.394        | 119,160.42             |
|  | DHH    | 93.847        | 23,960.88              |
|  | DHH    | 93.113        | 23,753.73              |
|  | DHH    | 93.848        | 14,785.38              |
|  | DHH    | 93.394        | 13,870.64              |
|  | DHH    | 93.866        | 23,719.89              |
|  | DHH    | 93.837        | 6,538.54               |
|  | DHH    | 93.837        | 5,110.94               |
|  | DHH    | 93.837        | 488,860.87             |
|  | DHH    | 93.856        | 204,899.13             |
|  | DHH    | 93.279        | 187,615.13             |
|  | DHH    | 93.396        | (0.01)                 |
|  | DHH    | 93.393        | 369,370.02             |
|  | DHH    | 93.856        | 377.21                 |
|  | DHH    | 93.173        | 172,687.55             |
|  | DHH    | 93.113        | 225.42                 |
|  | DHH    | 93.856        | 485,107.15             |
|  | DHH    | 93.837        | 204.62                 |
|  | DHH    | 93.279        | 133,977.27             |
|  | DHH    | 93.837        | 814,670.83             |
|  | DHH    | 93.279        | 219,325.98             |
|  | DHH    | 93.173        | 83,793.19              |
|  | DHH    | 93.854        | 145,328.51             |
|  | DHH    | 93.856        | 92,524.03              |
|  | DHH    | 93.847        | 171,773.83             |
|  | DHH    | 93.855        | 30,638.96              |
|  | DHH    | 93.263        | 14,427.58              |
|  | DHH    | 93.27398C0043 | 46,429.21              |
|  | DHH    | 93.DK02400    | 138,732.85             |
|  | DHH    | 93.CN65111    | 665.16                 |
| National Science Foundation            | NSF    | 47.074        | 78,235.17              |
|  | NSF    | 47.074        | 72,728.37              |
|  | NSF    | 47.074        | 7,343.90               |
|  | NSF    | 47.074        | 41,966.90              |
|  | NSF    | 47.074        | 123,895.05             |
| Pass thru:                             |        |               |                        |
| Biocheck Labs                          | DHH    | 93.855        | 10,106.56              |
| Boston University Medical Center       | DHH    | 93.868        | 27,055.10              |
| Case Western University                | DHH    | 93.396        | 6,656.01               |
| Eastern Cooperative Oncology Group     | DHH    | 93.395        | 513.07                 |
| Henry Ford Health Systems              | DHH    | 93.853        | (13,987.55)            |
| Massachusetts Institute of Technology  | DHH    | 93.113        | 146,672.63             |
| National Children's Cancer Institute   | DHH    | 93.395        | 5,583.75               |
| National Children's Cancer Institute   | DHH    | 93.395        | 5,164.66               |
| Receptor Pro Inc                       | DHH    | 93.856        | 10,790.76              |
| Receptor Pro Inc                       | DHH    | 93.855        | 5,198.61               |
| Science Application International Corp | DHH    | 93.RD         | 1,990.42               |
| University of California-San Diego     | DHH    | 93.856        | 13,758.56              |
| University of Cincinnati               | DHH    | 93.393        | 158,231.82             |

Medical College of Ohio  
 Schedule of Expenditures of Federal Awards  
 Fiscal Year Ended June 30, 2000

|  | Agency | CFDA #          | FY2000<br>Expenditures  |
|--|--------|-----------------|-------------------------|
| University of Iowa                                 | DHH    | 93.837          | 355,450.79              |
| University of Michigan                             | NSF    | 47.074          | 60,360.11               |
| University of Rochester                            | DHH    | 93.835          | 353.94                  |
| University of Toledo                               | DHH    | 93.837          | 5,956.00                |
| University of Texas Health Science Center          | DHH    | 93.395          | 49,864.79               |
| Veterans Medical Research Foundation               | DHH    | 93.856          | 119,645.18              |
| Washington University                              | DHH    | 93.121          | 292,073.54              |
| Wayne State University                             | DHH    | 93.173          | 39,303.69               |
| <b>Total Research &amp; Development</b>            |        |                 | <b>\$ 10,112,480.27</b> |
| <b>OTHER:</b>                                      |        |                 |                         |
| Health Resources and Services Administration       | DHH    | 93.358          | 42,130.32               |
|  | DHH    | 93.896          | 70,960.57               |
|  | DHH    | 93.984          | 194,129.58              |
|  | DHH    | 93.191          | 137,741.04              |
|  | DHH    | 93.107          | 592,212.86              |
|  | DHH    | 93.379          | 133,909.05              |
|  | DHH    | 93.886          | 118,843.47              |
|  | DHH    | 93.298          | 327,339.04              |
| National Cancer Institute                          | DHH    | 93.393          | 319.93                  |
| National Institutes of Health                      | DHH    | 93.273-MH004514 | 1,406.26                |
|  | DHH    | 93.278          | 208.00                  |
| NIH-National Library of Medicine                   | DHH    | 93.467-MZ702279 | 7,391.39                |
|  | DHH    | 93.879          | 153,484.23              |
| Pass thru:   |        |                 |                         |
| Bowling Green State University                     | DHH    | 93.969          | 9,447.00                |
| University of Illinois                             | DHH    | 93.879          | 3,520.66                |
| Ohio Department of Health                          | UDE    | 84.181          | 54,546.83               |
|  | ODH    | 93.994          | 14,100.00               |
|  | DHH    | 93.919          | 51,471.98               |
|  | DHH    | 93.917          | 2,299.60                |
| Community Mental Health Services                   | DHH    | 93.958          | 417,590.75              |
| <b>Total Other</b>                                 |        |                 | <b>\$ 2,333,052.56</b>  |
| <b>Total Expenditures of Federal Awards FY2000</b> |        |                 | <b>\$ 12,798,958.95</b> |

Agency Key:

DHH- Department of Health & Human Services  
 DOD- Department of Defense  
 DOI- Department of Interior  
 EPA- Environmental Protection Agency  
 NSF- National Science Foundation  
 UDE- Department of Education

MEDICAL COLLEGE OF OHIO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2000

1. **Basis of Presentation**

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

2. **Family Education Loan Program**

Medical College of Ohio acts as the intermediary for students obtaining Family Education loans from lending institutions. The lending institution is responsible for billings and collections of the loans. The Medical College of Ohio assists the lending institutions by processing the applications and forwarding checks from the lending institutions to the students. Loans advanced to students during the fiscal year ended June 30, 2000, totalled \$13,555,242.

3. **Health Professions Student Loan Program**

Revolving loan funds are established to maintain Health Professions Student loans. Repayment of principal and interest are deposited back into the program for new loans. The Medical College of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of the loans. Since July 1, 1993, Health Professions Student Loan funds have been awarded in the form of Primary Care Loans and Loans for Disadvantaged Students. As of June 30, 2000, outstanding loans under both programs totalled \$1,436,750.

4. **Federal Perkins Loan Program**

Revolving loan funds are also established to maintain Perkins loans. Repayments of principal and interest are deposited back into the program for new loans. The Medical College of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of the loans. As of June 30, 2000, outstanding Perkins loans totalled \$3,442,981.

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

Board of Trustees  
Medical College of Ohio

We have audited the financial statements of the Medical College of Ohio as of and for the year ended June 30, 2000, and have issued our report thereon dated September 29, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

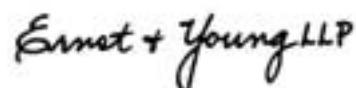
Compliance

As part of obtaining reasonable assurance about whether the Medical College of Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be disclosed under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical College of Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



September 29, 2000

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

Board of Trustees  
Medical College of Ohio

Compliance

We have audited the compliance of the Medical College of Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. The Medical College of Ohio's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Medical College of Ohio's management. Our responsibility is to express an opinion on the Medical College of Ohio's compliance based on our audit.

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

In our opinion, the Medical College of Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

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



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

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

September 29, 2000

*Ernst + Young LLP*



MEDICAL COLLEGE OF OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2000

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

**Financial Statement Section**

- (i) Type of auditor's report issued: unqualified
- (ii) Internal control over financial reporting:
- Material weakness(es) identified?      yes   X   no
- Reportable condition(s) identified not considered  
to be material weakness(es)?      yes   X   no
- (iii) Noncompliance material to financial statements noted?      yes   X   no

**Federal and State Awards Section**

- (viii) Dollar threshold used to determine Type A programs:     \$383,969
- (ix) Auditee qualified as low-risk auditee?   X   yes      no
- (v) Type of auditor's report on compliance for major programs: unqualified
- (iv) Internal control over compliance:
- Material weakness(es) identified?      yes   X   no
- Were reportable condition(s) identified not considered  
to be material weakness(es)?      yes   X   no
- (vi) Any audit findings disclosed that are required to be reported  
in accordance with Circular A-133 (Section .510(a))?      yes   X   no
- (vii) Identification of major programs:

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

**Part II - Schedule of Financial Statement Findings**

None

**Part III - Schedule of Federal Award Findings and Questioned Costs**

None

## REPORT OF INDEPENDENT AUDITORS

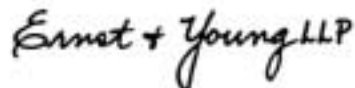
Board of Trustees  
Medical College of Ohio

We have audited the accompanying balance sheets of the Medical College Hospitals (Hospital Funds of the Medical College of Ohio, a component unit of the State of Ohio, - see Note 1) as of June 30, 2000 and 1999, and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical College Hospitals as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



September 29, 2000

**MEDICAL COLLEGE HOSPITALS**

**BALANCE SHEETS**

**Assets**

|  | June 30,              |                       |
|--|-----------------------|-----------------------|
|  | 2000                  | 1999                  |
| <b>Current Assets</b>                    |                       |                       |
| Cash and Cash Equivalents                | \$ 2,272,057          | \$ 119,547            |
| Investments                              | 8,764,514             | 21,435,978            |
| Accounts Receivable, Net                 | 29,138,262            | 29,492,533            |
| Accrued Interest Receivable              | 277,187               | 462,212               |
| Inventories                              | 3,180,866             | 2,379,320             |
| Prepaid Expense                          | 245,838               | 553,518               |
|  | <hr/>                 | <hr/>                 |
| <b>Total Current Assets</b>              | 43,878,724            | 54,443,108            |
| <b>Property, Plant and Equipment</b>     |                       |                       |
| Property, Plant and Equipment at Cost    | 165,821,417           | 160,629,980           |
| Less Accumulated Depreciation            | (88,102,605)          | (81,914,392)          |
|  | <hr/>                 | <hr/>                 |
| <b>Net Property, Plant and Equipment</b> | 77,718,812            | 78,715,588            |
| <b>Other Assets</b>                      |                       |                       |
| Self-Insurance Trust Investments         | 1,748,583             | 1,677,185             |
| Investments Held For Capital Expansion   | 9,294,868             | 9,982,522             |
|  | <hr/>                 | <hr/>                 |
| <b>Total Other Assets</b>                | 11,043,449            | 11,659,707            |
|  | <hr/>                 | <hr/>                 |
| <b>Total Assets</b>                      | <b>\$ 132,640,985</b> | <b>\$ 144,818,403</b> |

**Liabilities and Fund Balance**

|  |                       |                       |
|--|-----------------------|-----------------------|
| <b>Current Liabilities</b>                                     |                       |                       |
| Accounts Payable   | \$ 9,356,634          | \$ 13,810,339         |
| Accrued Liabilities  | 8,409,130             | 12,068,799            |
|  | <hr/>                 | <hr/>                 |
| <b>Total Current Liabilities</b>                               | 17,765,764            | 25,879,138            |
| <b>Noncurrent Liabilities</b>                                  |                       |                       |
| Estimated Payables Under Third Party<br>Reimbursement Programs | 1,664,458             | 1,027,661             |
| Capital Lease Obligations                                      | 2,184,779             | 2,840,534             |
| Accrued Liabilities  | 2,203,207             | 2,016,358             |
|  | <hr/>                 | <hr/>                 |
| <b>Total Noncurrent Liabilities</b>                            | 6,052,444             | 5,884,553             |
|  | <hr/>                 | <hr/>                 |
| <b>Total Liabilities</b>                                       | 23,818,208            | 31,763,691            |
| <b>Fund Balance</b>  | 108,822,777           | 113,054,712           |
|  | <hr/>                 | <hr/>                 |
| <b>Total Liabilities and Fund Balance</b>                      | <b>\$ 132,640,985</b> | <b>\$ 144,818,403</b> |

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

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

|   | June 30,              |                       |
|---|-----------------------|-----------------------|
|   | <u>2000</u>           | <u>1999</u>           |
| <b>Revenue</b>  |                       |                       |
| Net Patient Service Revenue                           | \$ 139,967,123        | \$ 142,755,209        |
| Other Revenue   | 6,100,745             | 6,271,558             |
| Investment Income                                     | <u>1,441,843</u>      | <u>2,779,736</u>      |
| <b>Total Revenue</b>                                  | <u>147,509,711</u>    | <u>151,806,503</u>    |
| <br>  |                       |                       |
| <b>Expenses</b>                                       |                       |                       |
| Salaries and Benefits                                 | 74,909,287            | 73,612,375            |
| Supplies  | 29,987,048            | 29,672,249            |
| Allocated College Expenses                            | 11,019,034            | 11,297,679            |
| Outside Purchased Services                            | 11,300,057            | 12,123,747            |
| Depreciation and Amortization                         | 9,155,517             | 8,020,083             |
| Provision for Uncollectible Accounts                  | 7,614,068             | 7,812,838             |
| Information/Communication                             | 1,631,673             | 2,905,749             |
| Travel  | 306,817               | 530,114               |
| Other Expenses  | <u>1,849,428</u>      | <u>2,033,280</u>      |
| <b>Total Expenses</b>                                 | <u>147,772,929</u>    | <u>148,008,114</u>    |
| <b>Revenue in Excess of (less than) Expenses</b>      | <u>(263,218)</u>      | <u>3,798,389</u>      |
| <br>  |                       |                       |
| Fund Balance at Beginning of Year                     | 113,054,712           | 117,564,920           |
| Transfers:  |                       |                       |
| Transfer to Subsidized Programs                       | (4,632,490)           | (4,393,613)           |
| Transfer of Plant Assets Between College and Hospital | 733,002               | (2,970,468)           |
| State Capital Appropriations                          | 350,000               | (5,513)               |
| Net Realized and Unrealized Loss on Investments       | <u>(419,229)</u>      | <u>(939,003)</u>      |
| <b>Fund Balance at End of Year</b>                    | <u>\$ 108,822,777</u> | <u>\$ 113,054,712</u> |

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

**MEDICAL COLLEGE HOSPITALS**

**STATEMENTS OF CASH FLOWS**

|   | June 30,            |                   |
|---|---------------------|-------------------|
|   | <u>2000</u>         | <u>1999</u>       |
| <b>Cash Flows from Operating Activities</b>   |                     |                   |
| Revenue in Excess of (less than) Expenses   | \$ (263,218)        | \$ 3,798,389      |
| <b>Adjustments to Reconcile Revenue in Excess of (less than) Expenses to Net Cash Provided by Operating Activities:</b> |                     |                   |
| Depreciation and Amortization   | 9,155,517           | 8,020,083         |
| Provision for Uncollectible Accounts  | 7,814,068           | 7,812,838         |
| Changes in Assets and Liabilities Affecting Operating Activities:   |                     |                   |
| Receivables   | (7,074,772)         | (9,357,002)       |
| Inventories   | (801,546)           | (93,313)          |
| Prepaid Expense   | 307,680             | (505,301)         |
| Accounts Payable  | (4,453,705)         | 4,542,329         |
| Accrued Liabilities   | (3,491,778)         | (1,129,542)       |
| <b>Net Cash Provided by Operating Activities</b>  | 992,246             | 13,088,481        |
| <b>Cash Flows from Noncapital Financing Activities</b>  |                     |                   |
| Subsidized Program Transfer   | (4,632,490)         | (4,393,613)       |
| <b>Net Cash Used in Noncapital Financing Activities</b>   | (4,632,490)         | (4,393,613)       |
| <b>Cash Flows from Capital and Related Financing Activities</b>   |                     |                   |
| Acquisition of Property, Plant, and Equipment   | (7,075,739)         | (24,351,947)      |
| Capital Expansion Funds   | 687,656             | (482,880)         |
| <b>Net Cash Used in Capital and Related Financing Activities</b>  | (6,388,083)         | (24,834,827)      |
| <b>Cash Flows from Investing Activities</b>   |                     |                   |
| Net Sales of Investments  | 12,252,235          | 12,455,788        |
| Purchases of Self-Insurance Trust Investments   | (71,398)            | (60,929)          |
| <b>Net Cash Provided by Investing Activities</b>  | 12,180,837          | 12,394,859        |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>   | 2,152,510           | (3,745,100)       |
| Cash and Cash Equivalents at Beginning of Year  | 119,547             | 3,864,647         |
| <b>Cash and Cash Equivalents at End of Year</b>   | <u>\$ 2,272,057</u> | <u>\$ 119,547</u> |

Supplemental disclosure of cash flow information:

MCO received state appropriations of \$350,000 in fiscal year 2000 and \$(5,513) in fiscal year 1999. These amounts represent a noncash capital and related financing activity and are not included in the Acquisition of Property, Plant and Equipment above. During fiscal 2000, MCO entered into capital lease obligations of \$427,000 for certain hospital equipment.

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

**MEDICAL COLLEGE HOSPITALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2000**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

**Accounting and reporting principles**

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

**Patient accounts receivable and revenue**

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

- **Medicare and Medicaid**

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

- **Other Payors**

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

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

**MEDICAL COLLEGE HOSPITALS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

**Charity care**

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

**Inventories**

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

**Investments**

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

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

**State capital appropriations**

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

**Property, plant and equipment**

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

**Income taxes**

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

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - NET PATIENT SERVICE REVENUE**

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



**MEDICAL COLLEGE HOSPITALS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

|  | <u>Year Ended<br/>June 30, 2000</u> | <u>Year Ended<br/>June 30, 1999</u> |
|--|-------------------------------------|-------------------------------------|
| Gross patient charges  | \$228,428,891                       | \$214,742,902                       |
| Less provision for third-party contractual allowances and adjustments: |                                     |                                     |
| Medicare   | (30,382,455)                        | (25,141,238)                        |
| Medicaid   | (6,406,100)                         | (8,058,880)                         |
| Other  | (43,377,163)                        | (35,302,034)                        |
| Less charity care services provided:                                   |                                     |                                     |
| Traditional charity care   | <u>(8,296,050)</u>                  | <u>(3,485,541)</u>                  |
| <b>Net Patient Service Revenue</b>                                     | <b><u>\$139,967,123</u></b>         | <b><u>\$142,755,209</u></b>         |

Approximately 49% of the Hospital's revenue is derived under prospectively determined rate provisions of third-party programs (primarily Medicare and Medicaid). Revenue received under these third-party agreements (primarily the Medicare and Medicaid programs) are subject to examination and retroactive adjustments. Prior year settlements recognized in 2000 and 1999 increased net patient service revenue by approximately \$3,500,000 and \$800,000, respectively. Net patient service revenue for 2000 and 1999 includes \$3,637,000 and \$2,887,000, respectively, from the Ohio Hospital Care Assurance Program. It is the opinion of management that it is at least reasonably possible that the estimated settlements recorded will change by material amounts in the near term.

**NOTE 3 - CHARITY AND UNCOMPENSATED CARE**

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

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

|   | <u>Year Ended<br/>June 30, 2000</u> | <u>Year Ended<br/>June 30, 1999</u> |
|---|-------------------------------------|-------------------------------------|
| Traditional charity care                      | \$5,243,000                         | \$2,322,000                         |
| Unpaid costs of traditional Medicaid programs | 1,185,000                           | 2,174,000                           |
| Unpaid costs of Other Welfare programs        | <u>2,671,000</u>                    | <u>730,000</u>                      |
| <b>Total Charity and Uncompensated Care</b>   | <b><u>\$9,099,000</u></b>           | <b><u>\$5,226,000</u></b>           |

Charity and uncompensated care approximated 6% of total Hospital expenses for the year ended June 30, 2000 and 4% for the year ended June 30, 1999, and do not include provision for bad debts.

**NOTE 4 - CASH AND INVESTMENTS**

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

**MEDICAL COLLEGE HOSPITALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2000**

MCO's cash and investments are accounted for on a pooled basis. MCO employs the shared method of accounting for pooled cash and investments and for proportionate distribution of income to each fund with equity in the pool. The Hospital's portion of the bank balance of cash deposits at June 30, 2000, was \$826,389. Of the bank balance, up to \$100,000 is insured by federal depository insurance and the remainder is uninsured but collateralized by pools of securities pledged by the depository bank and held in the name of the bank.

Investments are stated at market value at June 30, 2000 and 1999. Investments are held in safekeeping by MCO's custodial bank's trust department, whose records identify MCO's ownership. For purposes of the statement of cash flows, the Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

|  | <u>June 30, 2000</u>  | <u>June 30, 1999</u>  |
|--|-----------------------|-----------------------|
|  | <u>Market and</u>     | <u>Market and</u>     |
|  | <u>Carrying Value</u> | <u>Carrying Value</u> |
| Cash Equivalents:                      |                       |                       |
| Money Market Funds                     | 2,272,057             | 119,547               |
| Total Cash and Cash Equivalents        | <u>\$2,272,057</u>    | <u>\$ 119,547</u>     |
| Investments:                           |                       |                       |
| U.S. Government Obligations            | \$ 5,124,623          | \$11,448,645          |
| Corporate Notes                        | 12,357,528            | 18,539,130            |
| Bonds                                  | 577,229               | 718,762               |
| Bankers Acceptance                     | -                     | 711,963               |
| Total Investments                      | <u>\$18,059,380</u>   | <u>\$31,418,500</u>   |
| Investments included in Current Assets | \$ 8,764,514          | \$21,435,978          |
| Investments included in Capital        |                       |                       |
| Expansion Funds                        | <u>9,294,866</u>      | <u>9,982,522</u>      |
| Total Investments                      | <u>\$18,059,380</u>   | <u>\$31,418,500</u>   |

**MEDICAL COLLEGE HOSPITALS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

**NOTE 5 - ACCOUNTS RECEIVABLE**

A summary of accounts receivable is as follows:

|                                      | June 30,            |                     |
|--------------------------------------|---------------------|---------------------|
|                                      | <u>2000</u>         | <u>1999</u>         |
| Patient accounts:                    |                     |                     |
| Inpatient                            | \$31,476,131        | \$29,003,976        |
| Outpatient                           | 10,452,256          | 11,707,444          |
| Other                                | <u>6,110,438</u>    | <u>5,848,768</u>    |
|                                      | 48,038,824          | 46,560,188          |
| Less:                                |                     |                     |
| Allowance for uncollectible accounts | (4,165,163)         | (4,959,250)         |
| Contractual and other adjustments    | <u>(14,735,400)</u> | <u>(12,108,405)</u> |
| Net Accounts Receivable              | <u>\$29,138,262</u> | <u>\$29,492,533</u> |

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2000 and 1999 was as follows:

|                          | <u>2000</u> | <u>1999</u> |
|--------------------------|-------------|-------------|
| Medicare                 | 31%         | 21%         |
| Commercial               | 23          | 21          |
| Traditional Medicaid     | 11          | 9           |
| Blue Cross               | 7           | 4           |
| Other Third-Party Payors | 24          | 22          |
| Patients                 | <u>4</u>    | <u>23</u>   |
|                          | <u>100%</u> | <u>100%</u> |

**NOTE 6 - SETTLEMENTS UNDER THIRD-PARTY REIMBURSEMENT CONTRACTS**

The reimbursement for Medicare and Medicaid patients is subject to final determination by the respective agencies. Final determinations have been made through 1997 for Medicare and 1995 for Medicaid. Tentative settlements have been made through 1999 for both Medicare and Medicaid.

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

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

|  | June 30,             |                      |
|--|----------------------|----------------------|
|  | <u>2000</u>          | <u>1999</u>          |
| Land and Improvements  | \$ 564,790           | \$ 561,350           |
| Building and fixtures  | 96,286,706           | 88,668,907           |
| Equipment  | 58,210,262           | 52,159,714           |
| Construction in progress (estimated cost to complete \$21,689,000) | <u>10,759,659</u>    | <u>19,240,009</u>    |
|  | 165,821,417          | 160,629,980          |
| Less: Accumulated depreciation                                     | <u>(88,102,605)</u>  | <u>(81,914,392)</u>  |
| Net Property, Plant and Equipment                                  | <u>\$ 77,718,812</u> | <u>\$ 78,715,588</u> |

**MEDICAL COLLEGE HOSPITALS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

**NOTE 8 - LEASE COMMITMENTS**

The Hospital leases certain patient care equipment under various noncancelable operating lease agreements. Total operating lease expense was \$872,000 in 2000 and \$1,378,000 in 1999. At June 30, 2000, the Hospital was committed to future minimum operating lease payments of \$315,000 in 2001, \$281,000 in 2002, \$280,000 in 2003, \$122,000 in 2004, and \$53,000 for 2005.

At the expiration of various leases, the Hospital has the option to make a termination payment, purchase the equipment at fair market value or extend the lease term. Future minimum operating lease payments include \$437,000 in termination payments related to these lease agreements.

The Hospital has capital lease obligations of \$2,184,779 and \$2,840,534 at June 30, 2000 and 1999, respectively. The cost of the assets recorded under capital leases and the related accumulated depreciation as of June 30, 2000, are as follows:

|                          |                     |
|--------------------------|---------------------|
| Equipment Cost           | \$ 5,950,093        |
| Accumulated Depreciation | <u>(2,400,966)</u>  |
| Net Book Value           | <u>\$ 3,549,127</u> |

Minimum lease payments at June 30, 2000, by year and in the aggregate, under capital leases are as follows:

|                                    |                    |
|------------------------------------|--------------------|
| 2001                               | \$1,342,386        |
| 2002                               | 545,568            |
| 2003                               | 330,778            |
| 2004                               | 130,003            |
| 2005                               | <u>30,787</u>      |
| Net minimum lease payments         | \$2,379,522        |
| Less amounts representing interest | <u>(194,743)</u>   |
| Present value of lease payments    | <u>\$2,184,779</u> |

**NOTE 9 - RETIREMENT PLANS**

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

Participating employees are entitled to retirement benefits payable for life, equal to 2.1% per year of credited service times the final average salary (the average of the three highest years of earnings). Participants are entitled to retirement benefits equal to 2.5% of their final average salary for each year of service over 30 years. Participating employees may retire at age 60 with at least five years of credited service, at age 55 with at least 25 years of credited service or at any age with at least 30 years of credited service. Participating employees retiring with less than 30 years of service or at less than age 65 receive reduced benefits. Retirement benefits vest with five years of credited service. PERS also provides health care, survivor and disability benefits.

**MEDICAL COLLEGE HOSPITALS**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2000**

State law provides for employer and employee contributions to PERS based on actuarially determined rates. The Ohio Retirement Study Council determines the ARP rates and the Ohio Department of Insurance approves ARP carriers. Senate Bill 346 established a revised PERS disability program. PERS members were given the opportunity to elect coverage under the original or revised disability program. Anyone hired after July 29, 1992, is automatically covered under the revised disability program. The revised program was designed to be cost neutral, therefore, does not affect PERS funding. There were no material changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors for fiscal years 2000, 1999, and 1998. The employee and employer contribution rates for PERS were 8.5% and 13.31%, respectively, for fiscal years 2000, 1999, and 1998. The employee and employer contribution rates for ARP were 8.5% and 7.31%, respectively, for fiscal year 2000.

The Hospital paid the required employee retirement plan contribution on behalf of contract personnel in fiscal 2000, fiscal 1999 and fiscal 1998. The payment of employee contributions by the Hospital becomes a part of the employees' final average salary calculation for the year. Contributions made by employees or on behalf of employees for PERS amounted to \$4,454,603 in fiscal 2000, \$4,346,629 in fiscal 1999 and \$4,262,778 in fiscal 1998. Contributions made by employees or on behalf of employees for ARP amounted to \$37,211 for fiscal year 2000. The Hospital's retirement costs for PERS are funded as accrued and amounted to \$6,914,905 in fiscal 2000, \$6,804,048 in fiscal 1999 and \$6,663,117 in fiscal 1998. The Hospital's retirement costs for ARP are funded as accrued and amounted to \$31,995 for fiscal 2000.

MCO also provides termination benefits upon retirement resulting from unused sick days. During fiscal year 2000 and 1999, MCO calculated its liability in accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences."

**NOTE 10 - MALPRACTICE MATTERS**

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

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

At June 30, 2000 and 1999, the Hospital has accrued \$3,003,207 discounted at 6% and \$2,844,707 discounted at 6%, respectively, for asserted and unasserted claims, based on MCO's experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where MCO is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of the Hospital.

**MEDICAL COLLEGE HOSPITALS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2000**

|   | <u>June 30, 2000</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Malpractice Liability at Beginning of Year: | \$2,844,707          | \$2,980,395          |
| Provision for Incurred Claims               | 790,000              | -                    |
| Payments for Claims                         | <u>(631,500)</u>     | <u>(135,688)</u>     |
| Malpractice Liability at End of Year        | <u>\$3,003,207</u>   | <u>\$2,844,707</u>   |

**NOTE 11 - TRANSACTIONS WITH THE COLLEGE AND RELATED ORGANIZATIONS**

During fiscal 2000 and 1999, the Hospital made nonmandatory fund balance transfers of \$4.6 million and \$4.4 million to other funds for academic support and coverage of fund balance deficits.

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

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



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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800-282-0370  
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**MEDICAL COLLEGE OF OHIO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 12, 2000**