

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**Financial Statements for the Years Ended
June 30, 2004 and 2003**

**And
Independent Auditors' Report**

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS



**Auditor of State
Betty Montgomery**

Board of Directors
The Ohio State University Managed Health Care Systems, Inc.
2080 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the Independent Auditor's Report of The Ohio State University Managed Health Care Systems, Inc., Franklin County, prepared by Parns & Company, LLC, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 20, 2005

This Page is Intentionally Left Blank.

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

Balance Sheets

As of June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 230,090	\$ 191,501
Accounts receivable	272,480	66,440
Prepaid expenses	-	79,321
Total current assets	<u>502,570</u>	<u>337,262</u>
Property and Equipment:		
Furniture and equipment	206,843	199,266
Less: accumulated depreciation	<u>(200,529)</u>	<u>(198,594)</u>
Net property and equipment	6,314	672
Deferred Tax Asset	-	6,170
Other Assets - Deposit	<u>14,704</u>	<u>14,704</u>
Total Assets	<u>\$ 523,588</u>	<u>\$ 358,808</u>
<u>LIABILITIES AND RETAINED EQUITY</u>		
Current Liabilities:		
Account payables	\$ 52,301	\$ 114,458
Income taxes payable (refundable)	53,997	(5,163)
Accrued salaries, wages, and related liabilities	<u>133,026</u>	<u>112,021</u>
Total current liabilities	239,324	221,316
Retained Earnings	<u>284,264</u>	<u>137,492</u>
Total Liabilities and Retained Earnings	<u>\$ 523,588</u>	<u>\$ 358,808</u>

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

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

Income Statements

For the Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Capitation fees from affiliate	\$ 2,876,363	\$ 2,624,980
Other capitation fees	157,581	160,283
Other revenues	908	15,955
Total revenues	3,034,852	2,801,218
Expenses:		
Salaries	1,588,570	1,506,112
Employee benefits	470,814	471,781
General and administrative	138,072	242,943
Purchased services	347,484	339,389
Office rental	143,655	126,346
Supplies	29,298	31,855
Reproduction services	31,726	40,887
Communications	66,196	64,246
Depreciation	1,935	8,016
Total expenses	2,817,750	2,831,575
Net Income (Loss) Before Income Tax Expense	217,102	(30,357)
Income Tax Expense (Benefit)	70,330	(7,589)
Net Income (Loss)	146,772	(22,768)
Retained Earnings, Beginning	137,492	160,260
Retained Earnings, Ending	\$ 284,264	\$ 137,492

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

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.
Statements of Cash Flows
For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 146,772	\$ (22,768)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	1,935	8,016
Deferred income taxes	7,614	(3,059)
Changes in assets and liabilities:		
Accounts receivable	(206,041)	(31,008)
Prepaid expenses	79,321	(58,123)
Accounts payable	(62,157)	95
Accrued salaries, wages and related liabilities	21,006	19,008
Income taxes payable	57,716	(14,030)
Net cash provided by operating activities	<u>46,166</u>	<u>(101,869)</u>
INVESTING ACTIVITIES:		
Purchase of Fixed Assets	<u>(7,577)</u>	<u>-</u>
Net cash provided by investing activities	<u>(7,577)</u>	<u>-</u>
NET DECREASE IN CASH	38,589	(101,869)
CASH AT BEGINNING OF YEAR	<u>191,501</u>	<u>293,370</u>
CASH AT END OF YEAR	<u>\$ 230,090</u>	<u>\$ 191,501</u>

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

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Ohio State University Managed Health Care systems, Inc. (the Corporation) was organized in December 1991 and began full operations on July 1, 1992 to promote and carry out educational, charitable and scientific purposes by conducting and supporting activities that are for the benefit, perform the functions, or carry out the purpose of The Ohio State University (OSU), principally its health plans, health care facilities and its College of Medicine without regard for profit or financial gain. The Corporation's primary activities are the performance of managed care services which include utilization review, case management and precertification to its contract holders and their participants on a capitation basis. Should the Corporation cease to exist, any net assets remaining after payment of all liabilities would revert to either a selected successor organization established for substantially the same purpose or absent such a selection to OSU.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash - Of the Corporations's cash holdings as of June 30, 2004, \$72,044 were funds maintained in OSU's cash account and is commingled with other OSU related entities. It is invested daily in overnight investment vehicles, which are considered cash equivalents. Investment income is allocated to the Corporation based on their ownership of the funds included in the OSU's account.

The remaining cash holdings of the Corporations are held in bank balances. The remaining balances of cash holdings as of June 30, 2004 and 2003, were covered by federal deposit insurance totaling \$100,000. The remaining balances were uninsured as of June 30, 2004 and 2003, and totaled \$58,046 and \$91,501, respectively. The uninsured balances are collateralized by pools of securities pledged by the depository bank and are held in the name of the respective bank.

Property and Equipment - Property and equipment is stated on the basis of cost. Depreciation of such assets is computed using the straight-line method over their estimated useful lives ranging from 5 to 7 years.

Revenue Recognition - The Corporation earns revenue for services on a predetermined contractual basis. The Corporation recognizes this revenue based upon a fixed fee per covered participant as specified in the participant contracts. Deferred revenue represents monies received in advance of the contract period.

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The corporation is a taxable entity for Federal tax purposes. The Corporation provides deferred Federal income taxes for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for Federal income tax purposes. The Corporation is a non-charitable non-profit organization for state tax purposes.

2. RELATED PARTY TRANSACTIONS

The Corporation's sole beneficiary is OSU. The Corporation's Board of Directors, consisting of six members, are appointed based on their affiliation with OSU. In addition, the Corporation is associated through both a participant contract for services and an administrative service agreement. Under the terms of the participant contract, the Corporation receives capitation fees for services provided to OSU faculty and administrative staff.

Under the terms of the administrative agreement, the Corporation receives administrative services from OSU, principally personnel, fringe benefits (including employee participation in the OSU pension plan) and other operating items, and reimburses OSU for these services. Substantially all expenses in 2004 and 2003 were incurred under the terms of this agreement. Included in accounts payable were amounts due to OSU and affiliated organizations of \$47,793 and \$114,458 as of June 30, 2004 and 2003, respectively.

3. ACCOUNTS RECEIVABLE

As of June 30, 2004 and 2003, accounts receivable due to the Corporation represent amounts due from the University related to capitation fees earned. All amounts were deemed fully collectible.

4. INCOME TAXES

The provision (benefit) for Federal income taxes for the years ended June 30, 2004 and 2003, respectively, are as follows:

	<u>2004</u>	<u>2003</u>
Current	\$ 62,716	\$(4,530)
Deferred	<u>7,614</u>	<u>(3,059)</u>
Total	<u>\$ 70,330</u>	<u>\$(7,589)</u>

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

4. INCOME TAXES (continued)

The Corporation's net deferred tax assets (liability) as of June 30, 2004 and 2003, are as follows:

	<u>2004</u>	<u>2003</u>
Deferred tax asset (liability)	<u>\$ (1,444)</u>	<u>\$ 6,170</u>

The deferred tax assets (liability) reflect timing differences between deductions for book and tax reporting for depreciation expense and vacation & sick leave.

Income taxes payable (refundable) as of June 30, 2004 and 2003, consisted of the following:

	<u>2004</u>	<u>2003</u>
Income taxes payable (refundable) - current	\$52,553	\$ (5,163)
Income taxes payable - deferred	<u>1,444</u>	<u>-</u>
Total income taxes payable (refundable)	<u>\$53,997</u>	<u>\$ (5,163)</u>

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

To the Board of Directors of
The Ohio State University
Managed Health Care Systems, Inc.

We have audited the financial statements of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

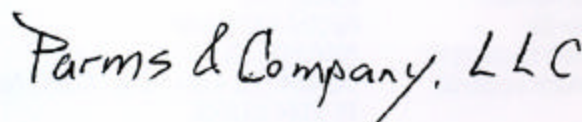
Compliance

As part of obtaining reasonable assurance about whether the Corporations' 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 reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporations' 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 use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.



November 8, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**THE OHIO STATE UNIVERSITY MANAGED HEALTH CARE SYSTEMS, INC.
FRANKLIN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**