

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

**Combined Financial Statements
For the Year Ended
June 30, 2007**

**And
Independent Auditors' Report**

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS



Mary Taylor, CPA
Auditor of State

Board of Directors
The Ohio State University Managed Health Care Systems, Inc.
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210

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, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 20, 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of June 30, 2007, and the related combined statements of income and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of The Ohio State University Managed Health Care Systems, Inc. at June 30, 2007, and the combined results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purposes of forming an opinion on the financial statements of the Corporation taken as a whole. The accompanying combining schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Parms & Company, LLC

December 13, 2007

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**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.
Combined Balance Sheets
As of June 30, 2007**

ASSETS

Current Assets:

Cash	\$ 454,232
Accounts receivable	201,893
Prepaid expenses	54,362
Total current assets	<u>710,487</u>

Property and Equipment:

Furniture and equipment	206,843
Less: accumulated depreciation	<u>(206,843)</u>
Net property and equipment	-

Deferred tax asset	11,100
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Other assets - deposit	<u>14,704</u>
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Total Assets	<u>\$ 736,291</u>
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LIABILITIES AND RETAINED EQUITY

Current Liabilities:

Account payables	\$ 320,644
Income taxes payable	8,900
Accrued salaries, wages, and related liabilities	228,900
Total current liabilities	<u>558,444</u>

Retained Earnings	<u>177,847</u>
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Total Liabilities and Retained Earnings	<u>\$ 736,291</u>
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The accompanying notes are an integral part of this financial statements.

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.
Combined Income Statements
For the Year Ended June 30, 2007**

REVENUES

Capitation fees from affiliates	\$ 3,437,164
Other capitation fees	120,142
University subsidies	1,545,024
Other revenues	79,506
Total revenues	<u>5,181,836</u>

EXPENSES

Salaries	2,541,317
Employee benefits	801,954
Other expenses	65,180
Purchased services	1,108,789
Office rental	182,756
Supplies	132,657
Reproduction Services	71,422
Communications	69,668
Travel	33,986
Equipment Rental & Repair	43,540
Mailing Services	23,007
Depreciation	1,262
Total expenses	<u>5,075,538</u>
Net Income Before Income Tax Expense	106,298
Provision for Income Taxes	<u>(23,800)</u>
Net Income	82,498
Retained Earnings, Beginning	<u>95,349</u>
Retained Earnings, Ending	<u>\$ 177,847</u>

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

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.
Combined Statements of Cash Flows
For the Year Ended June 30, 2007**

OPERATING ACTIVITIES:	
Net Income	\$ 82,498
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	1,262
Deferred income taxes	14,900
Changes in assets and liabilities:	
Accounts receivable	(143,560)
Prepaid expenses	(47,165)
Accounts payable	95,734
Accrued salaries, wages and related liabilities	114,933
Income taxes payable	<u>53,758</u>
Net cash provided by operating activities	<u>172,360</u>
NET CHANGE IN CASH	172,360
CASH AT BEGINNING OF YEAR	<u>281,872</u>
CASH AT END OF YEAR	<u><u>\$ 454,232</u></u>

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 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 (the University), 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 pre-certification 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 the University.

Basis of Presentation - The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 - The Corporation maintains a cash accounts with a local financial institution as well as an account with the University. The University's cash holdings on behalf of the Corporation are commingled with other University related entities and 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 University's account. As of June 30, 2007, primarily all cash holdings of the Corporations were cash holdings held in bank accounts. Of the cash holdings as of June 30, 2007, \$100,000 was subject to federal deposit insurance (FDIC). As of June 30, 2007, \$415,804 was held in bank accounts in excess of FDIC insurance. The uninsured balance is collateralized by pools of securities pledged by the depository bank and is 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. Following University policy and accounting standards, equipment costing less than \$5,000 is not capitalized.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Combined Financial Statements - The financial statements for the year ended June 30, 2007, have been combined to include all the health care activities managed by OSU Managed Care Systems, Inc. In the past, the only activities reported have been for those activities which were not considered tax exempt, and thus subject to income tax. The financials for the year ended June 30, 2007, have combined the financial activities of the following health management activities for which the Corporation provides oversight. Those activities include the University's Wellness Program, University Health Connection Program (UHC), and the University Faculty and Staff Assistance Program (UFSAP).

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.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Corporation's sole beneficiary is the University. The Corporation's Board of Directors, consisting of nine members, are appointed based on their affiliation with the University. 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 the University faculty and administrative staff.

Under the terms of the administrative agreement, the Corporation receives administrative services from the University, principally personnel, fringe benefits (including employee participation in the University pension plan) and other operating items, and reimburses the University for these expenses. Substantially all expenses in 2007 were incurred under the terms of this agreement. The accounts payable of \$320,644 as of June 30, 2007 were primarily due to the University for reimbursement of administrative services.

NOTE 3 - ACCOUNTS RECEIVABLE

As of June 30, 2007, accounts receivables primarily represent amounts due from the University related to capitation fees earned. All amounts were deemed fully collectible.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 4 - INCOME TAXES

The provision for Federal income taxes for the years ended June 30, 2007 is as follows:

	<u>2007</u>
Current	\$ 8,900
Deferred	<u>14,900</u>
Total	\$ <u>23,800</u>

The Corporation's has net deferred tax assets as of June 30, 2007 as follows:

Deferred tax asset	<u>\$ 11,100</u>
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The deferred tax assets reflect timing differences between deductions for book and tax reporting for prepaid expenses, depreciation and accrued vacation & sick leave.

Income taxes payable as of June 30, 2007, consisted of the following:

	<u>2007</u>
Estimated income taxes payable	\$ <u>8,900</u>

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS
Combined Balance Sheet Schedule
As of June 30, 2007**

	<u>OSUMC</u>	<u>UHC</u>	<u>UFSAP</u>	<u>Wellness</u>	<u>TOTAL</u>
Cash	5,507	-	-	-	5,507
Bank One Money Market	448,725	-	-	-	448,725
Accounts Receivable - Affiliate	-	-	23,692	74,124	97,816
Accounts Receivable	56,367	47,710	-	-	104,077
Prepaid Insurance	6,833	-	-	-	6,833
Prepaid Expenses	47,529	-	-	-	47,529
Office Equipment & Furniture	157,078	-	-	-	157,078
EDP Equipment	40,479	-	-	-	40,479
Artwork	9,286	-	-	-	9,286
Accumulated Depreciation	(206,843)	-	-	-	(206,843)
Deposit	14,704	-	-	-	14,704
Deferred Tax Asset	11,100	-	-	-	11,100
TOTAL ASSETS	590,765	47,710	23,692	74,124	736,291
Accounts Payable-Affiliate	256,066	-	-	-	256,066
Accounts Payable- Other	19,794	10,424	(37)	34,397	64,578
Accrued Vacation	94,265	30,083	17,568	30,290	172,206
Accrued Sick Leave	22,277	7,203	4,985	7,526	41,991
Accrued Rent	11,616	-	1,176	1,911	14,703
Taxes Payable	8,900	-	-	-	8,900
Retained Earnings	95,349	-	-	-	95,349
Net Income	82,498	-	-	-	82,498
Total Liability & Equity	590,765	47,710	23,692	74,124	736,291

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS
Combined Income Schedule
For the Year Ended June 30, 2007**

	<u>OSUMC</u>	<u>UHC</u>	<u>UFSAP</u>	<u>Wellness</u>	<u>TOTAL</u>
<i>Income</i>					
Capitation fees from affiliate	3,437,164	-	-	-	3,437,164
Other capitation fees	120,142	-	-	-	120,142
University Subsidies		538,413	243,252	763,359	1,545,024
Other revenue	15,974	63,532	-	-	79,506
Total Income	3,573,280	601,945	243,252	763,359	5,181,836
<i>Expenses</i>					
Salaries	1,734,748	340,173	162,330	304,066	2,541,317
Employee Benefits	547,656	103,363	49,704	101,231	801,954
Other Expenses	42,929	1,871	2,178	18,202	65,180
Purchased services	811,526	107,393	8,418	181,452	1,108,789
Office rental	144,163	-	14,335	24,258	182,756
Supplies	17,246	33,208	379	81,824	132,657
Reproduction Services	41,138	6,882	2,740	20,662	71,422
Communications	54,008	5,895	2,061	7,704	69,668
Travel	30,609	-	1,007	2,370	33,986
Equipment Rental & Repair	19,754	3,005	-	20,781	43,540
Mailing Services	21,943	155	100	809	23,007
Depreciation	1,262	-	-	-	1,262
Income Taxes	23,800	-	-	-	23,800
Total Expenses	3,490,782	601,945	243,252	763,359	5,099,338
Net Income	82,498	-	-	-	82,498

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE
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, 2007, and have issued our report thereon dated December 13, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than *inconsequential* will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Farms & Company, LLC

December 13, 2007



Mary Taylor, CPA
Auditor of State

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
JANUARY 8, 2008**