

**THE OHIO STATE UNIVERSITY
HEALTH SYSTEM, A SERIES OF FUNDS
OF THE OHIO STATE UNIVERSITY**

**Consolidated Statement of Net Assets
As of June 30, 2011**



Dave Yost • Auditor of State

Board of Directors
The Ohio State University Health System
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210

We have reviewed the *Report of Independent Auditors* of The Ohio State University Health System, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2010 through June 30, 2011. 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 Health System is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 26, 2012

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THE OHIO STATE UNIVERSITY HEALTH SYSTEM

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Report of Independent Auditors

The Board of Trustees of
The Ohio State University

In our opinion, the accompanying consolidated statement of net assets presents fairly, in all material respects, the financial position of The Ohio State University Health System (the "Health System"), a series of funds of The Ohio State University (the "University") at June 30, 2011 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Health System's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of net assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of net assets presentation. We believe that our audit of the statement of net assets provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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 considered in assessing the results of our audit.

PricewaterhouseCoopers LLP

December 19, 2011

**THE OHIO STATE UNIVERSITY HEALTH SYSTEM
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets	(in thousands)
Current assets:	
Cash and cash equivalents on deposit with the University	\$ 151,526
Patient accounts receivable, net of estimated uncollectibles of \$33,765	205,991
Other receivables	18,063
Inventory	20,212
Prepaid expenses and other assets	<u>3,631</u>
Total current assets	<u>399,423</u>
Assets Whose Use is Limited	
Cash held for capital replacement	85,316
Cash held for debt retirement	28,031
Cash held for Research initiatives	20,000
Trustee held funds	183,906
Investment in Subsidiaries	10,146
Other long term receivables	246
Capital assets, net	651,008
Deferred costs of issuance	<u>928</u>
Total noncurrent assets	<u>979,581</u>
Total assets	<u><u>\$ 1,379,004</u></u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 67,117
Accrued salaries and benefits	43,467
Third-party payor settlements	15,489
Current portion of long-term debt and capital leases	<u>32,546</u>
Total current liabilities	<u>158,619</u>
Third-party payor settlements less current portion	28,839
Compensated absences	44,245
Long-term debt and capital leases, net of current portion	<u>495,426</u>
Total noncurrent liabilities	<u>568,510</u>
Total liabilities	<u>727,129</u>
Net Assets	
Invested in capital assets, net of related debt	123,036
Unrestricted	<u>528,839</u>
Total net assets	<u>651,875</u>
Total liabilities and net assets	<u><u>\$ 1,379,004</u></u>

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

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

NOTE 1 – ORGANIZATION

The Ohio State University Health System (the "System" or the "Health System") operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of funds representing the financial activities of The Ohio State University Hospital, Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, The Richard M. Ross Heart Hospital, The Ohio State University Hospital East, OSU Harding Hospital, The Ohio State University Ambulatory Care, The Ohio State University Specialty Care Network and several affiliates. As a series of funds of The Ohio State University (the "University"), the System is exempt from income taxes under Internal Revenue Code Section 115.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The preparation of these consolidated financial statements is in conformity with generally accepted accounting principles, accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The System has the option of applying pronouncements issued by the Financial Accounting Standard Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The System has elected not to apply any FASB pronouncements after the applicable date.

The consolidated financial statements of the System have been prepared on the accrual basis of accounting. The System reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB. Revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The System reports as a business type entity, financed in whole or in part by fees charged to external parties for goods or services.

New Accounting Pronouncements:

In December 2010, the GASB issued GAS 62 which codifies certain accounting and financial reporting guidance that was previously provided by pre-1989 FASB standards. This guidance is effective for the System fiscal year ending June 30, 2012. The System does not expect that the adoption will have a significant impact on its financial condition and results of operation.

In December 2009, GASB issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This Statement amends provisions in Statements No. 45 and 43 related to measurement and actuarial valuation of other post employment benefits. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, the provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Health System management has not yet determined the impact that implementation of GASB Statement No. 57 will have on the financial statements.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets including estimated uncollectibles for accounts receivable, liabilities including settlements with third party payors, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Health System and all wholly owned subsidiaries and controlled entities. All material inter-company transactions and account balances have been eliminated in consolidating the financial statements.

Net Assets:

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently.
 - Expendable – Net assets whose use by the Health System is subject to externally imposed stipulations that can be fulfilled by actions of the Health System pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents on Deposit with the University:

Cash and cash equivalents on deposit with the University consists primarily of claims on cash and demand deposit accounts of \$150,603 and \$923, respectively at June 30, 2011.

Inventories:

Inventories for the Health System consist primarily of pharmaceutical and operating supplies, and are valued at cost on a FIFO (first-in/ first-out) basis.

Patient Accounts Receivable and Estimated Payables to Third-Party Payors:

A substantial portion of System's revenue is received under contractual arrangements with Medicare and Medicaid. Payments from these payors are based on a combination of prospectively determined rates and retrospectively settled amounts. Many of the payment calculations require the use of estimates. Final settlement of the amount due to the System or payable to the payors are subject to the laws and regulations governing the federal and state programs and post-payment audits, which may result in further adjustments by the payors. Management believes that reasonable provisions for anticipated adjustments have been made in the financial statements. Certain adjustments made by third parties in previously settled cost reports are being appealed. Recoveries are recognized in the financial statements as adjustments to prior year settlements at the time the appeals are resolved.

The Health System also enters into contractual relationships with managed care organizations and other third party payors to provide services to plan beneficiaries. These relationships may include services

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
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JUNE 30, 2011
(dollars in thousands)

provided to Medicare beneficiaries under Medicare Advantage programs and to Medicaid beneficiaries under Medicaid Managed Care programs. Many of the agreements with Medicare, Medicaid, and third-party payors provide for payment at amounts different from established prices. A summary of the significant payment arrangements with major third-party payors is as follows:

Medicare:

The Medicare program reimburses the business units of The Ohio State University Health System for services provided to its beneficiaries. The Ohio State University Hospital, The Richard M. Ross Heart Hospital, and The Ohio State University Hospital East reimbursement for inpatient services are based on a prospective payment system (PPS) that utilizes Medicare Severity Diagnostic Related Groups (MSDRGs). These payment rates vary according to the patient classification system established by Center for Medicare and Medicaid Services (CMS). OSU Harding is paid under PPS for Medicare Inpatient Psychiatric facilities. Medicare reimburses the Arthur G. James Cancer Hospital on a reasonable cost basis, subject to certain limits. Outpatient services for all business units are paid prospectively on pre-determined fee schedules or Ambulatory Payment Classifications (APCs). Costs of Graduate Medical Education, Paramedical training costs, and Transplant costs are reimbursed outside of MSDRGs on a combination of prospective and cost based methodologies. Reimbursement for these items is made at a tentative rate with a final settlement determined after submission of annual cost reports by the Health System and audits thereof, by Medicare.

Medicaid:

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge for every business unit except the Arthur G. James Cancer Hospital, which is reimbursed on a reasonable cost basis. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid prospectively on pre-determined fee schedules except the Arthur G. James Cancer Hospital, which is paid on a reasonable cost basis. Inpatient capital costs are paid based on a reasonable cost basis. The Health System is reimbursed for cost reimbursable items at tentative interim rates with final settlement determined after submission of annual cost reports by the Health System and audits thereof, by Medicaid.

Other:

The Health System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basic payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Settlements:

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2011. In the opinion of management, adequate provisions have been made for such settlements. The Health System records changes in estimates upon receiving interim or final settlements related to prior year cost reports. The most recent settled cost report for the Arthur G. James Cancer Hospital and The Ohio State University Hospital was 2008 and 2007, respectively.

Charity Care:

The Health System provides medical care to all patients regardless of their ability to pay. In addition, the Health System provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient accounts receivable.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

Assets Limited as to Use:

Assets Limited as to Use are set aside for future capital improvements, third party settlements, debt repayments and research initiatives. Control of assets is maintained by the Health System who may at its discretion subsequently use these assets for other purposes with Medical Center Board of Directors approval.

Capital Assets:

Capital asset acquisitions are recorded at cost, or at fair value at date of donation. The Health System computes depreciation for buildings (5-40 years), fixed and movable equipment (2-20 years), and leasehold improvements (3-16 years) using the straight-line method. The Health System's uses guidelines established by the American Hospital Association to assign estimated useful lives to fixed equipment and inventoried equipment. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Long-lived assets are evaluated for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from future estimated cash flows. Fair value estimates are derived from independent appraisals, established market values of comparable assets or internal calculations of future estimated cash flows.

Investments in Subsidiaries:

Investments in uncontrolled subsidiaries are recorded using the equity method of accounting.

Estimated Malpractice Costs

The Health System recognizes malpractice premiums paid to The University's Self Insurance Program as a period expense. See NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL MALPRACTICE CLAIMS.

NOTE 3- CASH AND INVESTMENTS

Assets Limited as to Use consist of amounts invested in The Ohio State University Investment Pool and are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Health System receives interest based on rates established by The University's internal bank program.

The University's investment policy authorizes the University to invest non-endowment funds in the following investments:

- Obligations of the US Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds

Trustee Held Funds include \$156 million of bond proceeds for the Medical Center Expansion Project.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land and Improvements	\$23,634	\$634	\$0	\$24,268
Buildings	367,953	9,853	0	377,806
Leasehold Improvements	21,110	463	0	21,573
Equipment - fixed	244,361	2,048	0	246,409
Equipment - moveable	340,109	40,062	20,894	359,277
Construction in progress	85,123	150,004	0	235,127
	1,082,290	203,064	20,894	1,264,460
Less accumulated depreciation	563,299	69,828	19,675	613,452
Capital assets, net	\$518,991	\$133,236	\$1,220	\$651,008

The increase in construction in progress of \$150,004 in fiscal year 2011 represents capital expenditures of \$203,064 (including capitalized interest of \$11,052), primarily related to the Medical Center Expansion project currently underway, net of capital assets placed in service of \$53,060.

NOTE 5 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2011 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Payable to the University:				
University Bonds:				
2010, 4.95% through 2030	\$0	\$304,500	\$6,048	\$298,452
2008, 3.83%-4.03% through 2029	76,555		2,845	73,710
2005, 3.83%-4.03% through 2026	71,725		3,489	68,236
2003, 4.32%-4.57% through 2024	45,937		3,128	42,809
1999, 5.14% through 2030	7,220		280	6,940
1992, 6.30% through 2012	4,772		1,734	3,038
Other Financing (Capital Leases):				
2010, 3.65%-5.84% through 2021	0	24,315	1,877	22,438
2009, 2.06%-5.26% through 2014	7,222		2,453	4,769
2008, 2.84%-4.00% through 2013	4,579		1,604	2,975
2007, 2.81%-4.05% through 2013	9,494		5,660	3,834
Interim financing provided by the University	41,642		40,871	771
Total Long Term Obligations	269,146	328,815	69,989	527,972
Less Current Portion of Long-Term Debt	21,858	32,546	21,858	32,546
Net Long Term Debt	\$247,288	\$296,269	\$48,131	\$495,426

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

University Bonds

The University has issued general receipts bonds, and has allocated a portion of those to the Health System through Memorandums of Understanding (MOUs) with no premium or discount on the debt. In fiscal year 2011, the Health System signed \$304,500 in such MOUs for a term of 20 years at a rate of 4.95%. The purpose of this debt was the partial funding of the Medical Center Expansion project currently underway.

Other Financing

The University maintains master lease agreements with one or more banking institutions, through which it obtains and allocates funding for Health System equipment purchases. For these borrowings, the Health System signs MOUs payable to the University. During fiscal year 2011, the Health System received \$8,400 at a rate of 4.5% for a term of 10 years to cover the purchase of a Veteran's Administration outpatient facility which has been renovated to provide hospital and physician outpatient services. MOUs of \$15,916 were also signed for equipment purchase and the start-up of the Eye & Ear Institute and CarePoint Gahanna.

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-term Debt Principal	Long-term Debt Interest
2012	\$32,546	\$23,705
2013	29,501	22,360
2014	27,013	21,084
2015	26,595	19,879
2016	26,046	18,686
2017-2021	134,249	75,502
2022-2026	143,487	42,964
2027-2031	108,535	19,306
Total	\$527,972	\$243,486

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

NOTE 6 – OPERATING LEASES

The Health System leases various buildings and office spaces and equipment under operating lease agreements. These facilities and items are not recorded as assets on the balance sheet.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year (in thousands):

2012	\$ 16,139
2013	12,637
2014	10,857
2015	10,440
2016	8,594
2017-2021	38,274
2021-2026	16,726
2026-2031	<u>15,217</u>
Total Minimum Lease Payments	128,881

NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL MALPRACTICE CLAIMS

On July 1, 2003, the Health System joined with OSU Physicians (OSUP), a consolidating organization within The Ohio State University to establish a new self-insurance fund for professional liability claims (Fund II), covering the hospitals as well as the physicians of OSUP. Previous to July 1, 2003, the Health System was self insured through the University for professional and general liability (Fund I). The assets and liabilities of both funds are not reflected in the Health System financial statements as a result of the retained risk being held by the University. Annual insurance costs are allocated to the Health System by the University.

The University has also established a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Both Funds (I and II) have retention of \$4,000,000 per occurrence. Unique to Fund II is aggregate loss of \$14,000,000 per year for fiscal years 2010 through 2013. Oval Limited covers up to \$55,000,000 per occurrence with a \$55,000,000 annual aggregate limit. A portion of the risk written to date is reinsured by a combination of three reinsurance companies rated A by A. M. Best. Oval Limited's net retention is 50% of the first \$15,000,000 and 0% for the remaining \$40,000,000 per occurrence.

There have been no settlements in the past 3 fiscal years which have exceeded the coverage provided by Fund I, Fund II, or Oval Limited. The Health System has not made any additional contributions in the last 3 years beyond its actuarially determined and Self Insurance Board approved premiums.

NOTE 8 - RETIREMENT PLANS

University employees are covered by one of three retirement systems. The University faculty is covered by the State Teachers Retirement System of Ohio (STRS Ohio). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

Defined Benefit Plans

STRS Ohio and OPERS offer statewide cost-sharing multiple-employer defined benefit pension plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. Both STRS Ohio and OPERS issue separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the two organizations.

STRS Ohio
275 East Broad Street
Columbus, OH 43215-3371
(614) 227-4090
(888) 227-7877
www.strsoh.org

OPERS, Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org

In addition to the retirement benefits described above, STRS Ohio and OPERS provide postemployment health care benefits.

OPERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For the period March 1, 2010 through December 31, 2010 (the latest period for which information is available), OPERS allocated 5.0% of the employer contribution rate to fund the health care program for retirees.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In response to skyrocketing health care costs, the HCPP restructured OPERS' health care coverage to improve the financial solvency of the fund by creating a separate investment pool for health care assets.

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

STRS Ohio currently provides access to health care coverage to retirees who participated in the deferred benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2010, STRS Ohio allocated employer contributions equal to 1.0% of covered payroll to a Health Care Stabilization Fund (HCSF) from which payments for health care benefits are paid.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
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(dollars in thousands)

Postemployment health care benefits are not guaranteed by ORC to be covered under either OPERS or STRS Ohio defined benefit plans.

Defined Contribution Plans

ARP is a defined contribution pension plan. Full-time administrative and professional staff and faculty may choose enrollment in ARP in lieu of OPERS or STRS Ohio. Classified civil service employees hired on or after August 1, 2005 are also eligible to participate in ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement health care benefits.

Combined Plans

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits.

OPERS also offers a combined plan. This is a cost-sharing multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits. OPERS provides retirement, disability, survivor and postretirement health benefits to qualifying members of the combined plan.

OPERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For the period March 1, 2010 through December 31, 2010, OPERS allocated 4.23% of the employer contribution rate to fund the health care program for retirees.

Funding Policy

ORC provides STRS Ohio and OPERS statutory authority to set employee and employer contributions. Contributions equal to those required by STRS Ohio and OPERS are required for ARP. For employees enrolling in ARP, ORC requires a portion (which may be revised pursuant to periodic actuarial studies) of the employer contribution be contributed to STRS Ohio and OPERS to enhance the stability of these plans. The required contribution rates (as a percentage of covered payroll) for plan members and the University are as follows:

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

	STRS Ohio	OPERS	ARP
Faculty:			
Plan member (entire year)	10.00%		10.00%
University (entire year)	14.00%		14.00%*
Staff:			
Plan member (entire year)		10.00%	10.00%
University (entire year)		14.00%	14.00%**
Law enforcement staff:			
Plan member (entire year)		11.10%	11.10%
University (entire year)		17.87%	17.87%

* Employer contributions include 3.5% paid to STRS Ohio.

** Employer contributions include 0.77% paid to OPERS.

The remaining amount is credited to employee's ARP account.

The University's (including the Health System) contributions, which represent 100% of required employer contributions, for the year ended June 30, 2011 and for each of the two preceding years are as follows (in thousands):

Year Ended June 30,	STRS Ohio Annual Required Contribution	OPERS Annual Required Contribution	ARP Annual Required Contribution
2009	\$50,227	\$132,620	\$36,924
2010	\$52,500	\$141,815	\$39,014
2011	\$54,725	\$148,120	\$40,835

NOTE 9 – COMPENSATED ABSENCES

University employees earn vacation and sick leave on a monthly basis. Classified civil service employees may accrue vacation benefits up to a maximum of three years credit. Administrative and professional staff and faculty may accrue vacation benefits up to a maximum of 240 hours. For all classes of employees, any earned but unused vacation benefit is payable upon termination.

Certain employees of the Health System receive comp time in lieu of overtime pay. Any unused comp time must be paid to the employee at the time of termination or retirement.

Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the University with ten or more years of service with the State. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 240 hours.

The University accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "termination payment method" which is set forth in Appendix C, Example 4 of the GASB Statement No. 16, *Accounting for Compensated Absences*. Under the termination method, the University calculates a ratio, Sick Leave Termination Cost per Year Worked, which is based on the University's actual historical experience of sick leave payouts to terminated employees. This ratio is then applied to the total years-of-service for current employees.

The Health System liability for the cost of vacation, comp time, and sick leave benefits is \$44,245 as of June 30, 2011.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

Year - End June 30,	Beginning-of-Fiscal Year	Additions	Reductions	Balance at Fiscal Year-End
2011	\$40,056	\$6,819	\$2,630	\$44,245

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of hospital accounts receivable from patients and third –party payors at June 30, 2011 as follows:

Medicare	19 %
Medicaid	15
Managed Care	52
Other Third-Party Payors	5
Patient Resp & Self Pay	9
Total	<u>100 %</u>

NOTE 11 – RELATED PARTY TRANSACTIONS

The Ohio State University

The Health System purchases employee benefits, utilities, mail services, and construction project management services from the University. Additionally, the Health System pays university overhead, which includes such services as payroll processing, public safety, auditing, and insurance.

OSU Physicians

The Health System leases the IDX patient management, accounting and billing software and related hardware to OSU Physicians (OSUP). In conjunction with the implementation of its new Integrated Health Information System, the Health System has recorded \$10,354 in other receivables from OSUP to cover OSUP’s share of the system’s startup costs.

OSUP provides patient account management and billing services for the Health System based physician practices. The Health System also contracts with certain OSUP LLCs to provide physician services to some of the Health System based physician practices.

NOTE 12 – CONTINGENCIES

The Health System is a party in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the Health System’s future financial position or results from operations.

THE OHIO STATE UNIVERSITY HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
JUNE 30, 2011
(dollars in thousands)

NOTE 13 - COMPLIANCE

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Health System 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 future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The estimated Medicare and Medicaid settlements recorded at June 30, 2011 could differ from actual settlements based upon results of the cost report audits discussed in Note 2. Changes in Medicare and Medicaid programs and the reduction of funding levels could have a material adverse impact on the Health System.

NOTE 14 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through December 19, 2011, the date the consolidated statement of net assets was issued. All material matters are disclosed in the footnotes to the consolidated statement of net assets.



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

To the Board of Trustees of
The Ohio State University

We have audited the consolidated statement of net assets of The Ohio State University Health System (the "Health System") as of June 30, 2011, and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



We noted certain matters that we reported to management of the Health System in a separate letter dated January 13, 2012.

This report is intended solely for the information and use of management, the Board of Trustees, others within The Ohio State University, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

December 19, 2011



Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY HEALTH SYSTEM

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
MAY 8, 2012