THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

(A SERIES OF DEPARTMENTS OF THE OHIO STATE UNIVERSITY)

Consolidated Financial Statements

As of and for the Years Ended June 30, 2014 and 2013, Independent Auditor's Report, and Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2013 through June 30, 2014. 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 Wexner Medical Center Health System is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

November 13, 2014

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The Ohio State University Wexner Medical Center Health System
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June 30, 2014 and 2013

Independent Auditor's Report

To the Board of Trustees of
The Ohio State University

We have audited the accompanying consolidated financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, which comprise the consolidated statements of net position as of June 30, 2014 and June 30, 2013 and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the Health System's basic consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

pwc

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health System at June 30, 2014 and June 30, 2013, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 14 are required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 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 for the year ended June 30, 2014. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Columbus, OH
October 22, 2014

The Ohio State University Wexner Medical Center Health System
Management Discussion and Analysis (Unaudited)
June 30, 2014 and 2013

Introduction

The following discussion and analysis provides an overview of the financial position and its activities of The Ohio State University Wexner Medical Center Health System (the "Health System") as of and for the years ended June 30, 2014, 2013, and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

About The Ohio State University Wexner Medical Center Health System

The Ohio State University Wexner Medical Center is one of the the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and 16 primary care locations. The System provided services to 57,000 adult inpatients and 1,594,000 outpatients during Fiscal Year 2014, 56,500 adult inpatients and 1,485,000 outpatients during Fiscal Year 2013, and 56,000 adult inpatients and 1,398,000 visits during Fiscal Year 2012.

The Health System operates nearly 1,200 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. Its Signature Programs in Cancer, Critical Care, Imaging, Heart, Neurosciences, and Transplantation provide personalized patient care. The Wexner Medical Center has been recognized by US News and World Report for 22 consecutive years as one of “America’s Best Hospitals” and has five nationally ranked specialties and is recognized as high-performing in eight others. It is one of 10 academic medical centers in the nation delivering the highest quality of care based on results of a study commissioned by the University Health System Consortium (UHC).

A $1.1 billion construction project broke ground in 2010, representing the largest development project in the history of The Ohio State University. The new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, a Critical Care Center, and integrated, state-of-the-art research facilities will provide scientists, researchers and clinicians with a single collaborative environment for research, education and patient care. This 1.1 million square foot building will include 276 cancer beds and 72 critical care beds and will have capacity for an additional 72 critical care beds for future growth. The new 21-level tower will open in December 2014 and it is estimated that more than 310,000 patients will be served annually.

The Health System has created strong partnerships and collaborations with a number of entities to help manage the health of populations across the continuum of care. The Telestroke Medicine hub has partnered with 27 hospitals to leverage innovative technology to provide faster and more efficient diagnosis and treatment of stroke patients in largely rural areas of Ohio.

Operating and Financial Highlights

	Fiscal Year June 30,		
	2014	2013	2012
Selected Statistics			
Admissions	$ 57,024	$ 56,592	$ 56,170
Avg. Daily Census	951	925	910
Outpatient Visits	1,593,519	1,485,147	1,398,549
Emergency Visits	117,977	118,280	122,499
Observation Patients	11,548	10,985	9,576
Surgeries	38,381	38,627	37,700

In 2014, the Health System continued its strategy of providing predictive, preventive, personalized and participatory model of care and remained financially sound due to solid activity levels and strong expense management. Inpatient admissions showed a slight increase compared with prior year. Consistent with industry trends, the patient environment continues to experience strong movement to an outpatient setting and to an increased use of observation beds. Outpatient visits increased 7.3% and total observation patients increased 5.1% over the previous year. The Health System will continue expanding its ambulatory strategy and meeting the needs of the community by opening future sites for The OSU Wexner Medical Center Health and Fitness Center at the Philip Heit Center for Healthy New Albany, Arlington Primary Care, and The Jameson Crane Sports Medicine Institute to be located at the southwest corner of Ackerman Road and Fred Taylor Drive.

The Health System continued to experience strong volumes in cancer, cardiovascular, obstetric, orthopedic, medicine, neonatal intensive care, and neurological service lines, which contributed to increases in revenues, average daily census and increased observation patients.

Income before other changes in Net Position was $229.1 million in 2014 versus $206.3 million in 2013 reflecting strong outpatient activities, a strong patient mix and maintaining expenses in line with activities.

Changes to Net Position included $120.5 million reinvested back into research, education, and programs at the Medical Center. In December of 2010, the Health System was awarded a $100 million grant from The Health Resources and Services Administration (HRSA), an Agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Approximately $19.8 million of the total grant was recognized under Capital Contributions as a change in Net Position in 2014, $23.1 million in 2013, and $30.4 million in 2012. The remaining amount of the grant will be funded by HRSA on a cost sharing basis, as allowable costs are incurred. Additionally, $12.8 million in 2014, $20.7 million in 2013, and $4.5 million in 2012 of other restricted expendable funds and pledges (in support of the tower and other initiatives) have been recorded. In total, after accounting for these changes and the impact of the Health System's operating results, the Health System's Net Position increased $141.6 million in 2014, $134.7 million in 2013 and $137.6 million in 2012.

As with other healthcare providers, we are being challenged by the enactment of healthcare reform. The impact of insurance exchanges, managed care rates, and Medicaid expansion continues to cause uncertainty in the environment for hospitals nationwide. The Medical Center continues to position itself to thrive in the changing market, as it has successfully done in the past. The clinical component of medical staff activities has been integrated into the OSU Faculty Group

Practice providing the Health System and the medical staff a unified structure to manage changes in reimbursement, practice patterns, and alignment in strategic initiatives.

The Health System is partnering with the Ohio State University Health Plan to design innovative product offerings for both the exchanges and employers and continue working with other providers to form strategic alliances.

The Health System is placing significant focus on efficiency and cost reduction and will aggressively control expenses as reimbursements come under pressure. Key in these initiatives is the creation of value through continued use of evidenced based practice, effective patient management during and after the hospital experience, and the use of our electronic medical record systems to reduce unnecessary treatment and costs. The Health System has effectively controlled and reduced costs of supplies and will continue to do so through aggressive contracting, standardization, and strategic sourcing. Significant effort is being placed in streamlining and refining revenue cycle activities. Ohio State University Physicians (OSUP) implemented the Epic Physician Billing system in July 2014 and is integrating it with the Health System's Epic patient and revenue cycle systems. Activities such as centralized patient scheduling, insurance precertification, payment at point of service and other administrative activities will be consolidated across the Medical Center.

The Health System is focused on creating strong affiliations with a number of entities to manage the health of populations across the continuum of care. The Health System has partnered with Memorial Hospital of Union County and Hocking Valley Community Hospital to offer expanded care and services. The Health System has also partnered with Ohio Valley Health Services and Education Corporation to expand specialized care for many people in the Ohio Valley region and give clinicians the ability to access the Integrated Healthcare Information System (IHIS), making it easier to share patient information, coordinate clinical care, and arrange for patient referrals and transfers.

Despite the challenges and the changing healthcare environment, the Health System expects to improve its financial position and operating results during the upcoming year, and will continue to play a key role in supporting the Medical Center and in its status as a leading academic medical center.

Using the Financial Statements

The Health System's financial report includes three consolidated financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

Statement of Net Position

The statement of net position represents the financial position of the Health System at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of the Health System, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. The Statements of Net Position at June 30, 2014, 2013, and 2012 are summarized as follows:

	2014	2013	2012
		(in thousands)	
Current assets	553,968	469,867	450,063
Noncurrent assets			
Assets whose use is limited	284,044	203,395	189,051
Capital assets, net	1,294,311	1,082,739	864,401
Other	36,554	38,119	30,179
Total assets	2,168,877	1,794,120	1,533,694
Other current liabilities	129,154	115,055	127,346
Current portion of			
Long-term debt and capital leases	44,273	41,072	34,467
Total current liabilities	173,427	156,127	161,813
Noncurrent liabilities			
Long-term debt and capital leases	840,551	643,935	511,659
Other noncurrent liabilities	89,111	69,841	70,719
Total liabilities	1,103,089	869,903	744,191
Net position	1,065,788	924,217	789,503
Total liabilities and net position	$ 2,168,877	$ 1,794,120	$ 1,533,694

Current Assets and Current Liabilities

	2014	2013	2012
		(in thousands)	
Current Assets			
Cash and cash equivalents on deposit with the University	$ 241,130	$ 187,965	$ 154,203
Patient accounts receivable, net	262,548	238,596	255,281
Inventories, Prepaids, Other Receivables	50,290	43,306	40,579
Total Current Assets	$ 553,968	$ 469,867	$ 450,063

Cash and cash equivalents on deposit with the University represents the Health System's cash, which is pooled with cash from other operating units within the University. These funds earn interest income at rates established through the University's internal bank program. The increase in cash balances from 2012 to 2014 is a result of solid operating performance and an increased insured population related to healthcare reform and Medicaid expansion.

Patient accounts receivable, net represent amounts due from third party payors and patients after allowances for discounts and bad debts. The Health System implemented IHIS in October 2011. This implementation not only replaced most existing clinical systems, but also included replacement of patient management, patient access, and billing systems. As of the end of the 2014 fiscal year, Patient accounts receivable, net increased $24.0 million from 2013 as a result of the increase in outpatient activity described above and an increased insured population related to healthcare reform and Medicaid expansion. As of the end of the 2013 fiscal year, Patient accounts receivable net decreased approximately $17 million from 2012, reflecting continued optimization of IHIS.

	2014	2013	2012
		(in thousands)	
Current Liabilities			
Accounts payable and accrued expenses	$ 97,967	$ 80,378	$ 95,533
Accrued salaries & benefits	31,187	32,136	28,172
Current portion of long-term debt	44,273	41,072	34,467
Third-party payor settlements	-	2,541	3,641
Total Current Liabilities	$ 173,427	$ 156,127	$ 161,813

Accounts payable and accrued expenses increased from 2013 to 2014 due to purchases of capital equipment for the Medical Center Expansion (MCE) project at year end. Accounts payable and accrued expenses decreased from 2012 to 2013 due to timing of payables runs and a decrease in patient accounts receivable credit balances. Current portion of long-term debt increased in 2014 as compared to 2013 and 2012 due to the acquisition of more debt from the University for the MCE project.

Assets Whose Use is Limited

	2014	2013	2012
		(in thousands)	
Assets whose use is limited			
Construction funds held for MCE	$ 88,887	$ 8,059	$ 27,247
Funds held for capital replacement	86,619	86,305	85,973
Funds held for debt retirement	28,031	28,031	28,031
Funds held for research initiatives	20,000	20,000	20,000
Funds held by University	60,507	61,000	27,800
Total Assets Limited as to Use	$ 284,044	$ 203,395	$ 189,051

Assets whose use is limited is comprised of funds set aside for specific purposes. Construction funds held for MCE are funds set aside for the Medical Center Expansion project. These funds represent unspent debt proceeds assigned from The Ohio State University to the Health System.

Capital Assets, Medical Center Expansion, and Long Term Debt

	2014	2013	2012
		(in thousands)	
Capital assets - net			
Property, plant, and equipment	$ 1,202,477	$ 1,172,298	$ 1,129,311
Construction in progress	868,765	633,908	416,650
Accumulated depreciation	(776,931)	(723,467)	(681,560)
Capital assets - net	$ 1,294,311	$ 1,082,739	$ 864,401

MCE construction continues on the tower containing the new James Cancer Hospital and new critical care units. Scheduled to open in December 2014, it will open with 276 cancer beds and 72 critical and will have capacity for an additional 72 critical care beds for future growth.

Components of MCE include the already completed two floor addition to the Ross Heart Hospital, the construction of a new MRI facility, and north Doan renovations. In total, the cost of the project is expected to be $1.1 billion dollars, with major components as follows:

Medical Center Expansion

	Cost (in thousands)
Cancer & Critical Care Tower	$ 742,700
Infrastructure and Roadways	92,200
Upgrades to existing facilities, demolition	100,300
Ross, Doan and MRI additions	82,800
BRT buildout and other projects	27,300
Project planning and support	54,700
Total Costs	$ 1,100,000

MCE is largely financed through University issued general receipts bonds which are allocated in part to the Health System through Memorandums of Understanding (MOUs). The Health System borrowed $249.0 million for MCE in 2014. These borrowings have an interest rate of 4.75% and are being serviced over 19 years. A total of $66.9 million of principal and interest was incurred in 2014, $46.6 million in 2013, and $33.3 million in 2012 for MCE. Of the $46.6 million incurred in 2013, $12.3 million was paid in 2014, which included $7.4 million in interest and $4.9 million in principal. The 2013 MOUs include a provision to borrow $38,042 in fiscal year 2015 for 18 years at an interest rate of 4.75%.

Additionally, in December of 2010, the Health System was awarded a $100 million grant from The Health Resources and Services Administration (HRSA), an Agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Through June 2014, $73.3 million ($19.8 million in 2014, $23.1 million in 2013, and $30.4 million in 2012) has been drawn on the grant and used in support of construction and is included in Other Changes in Net Position. The remaining amounts will be funded by HRSA on a cost sharing basis once the allowable costs have been incurred.

A total of $222.0 million in 2014, $223.8 million in 2013, and $211.8 million in 2012 has been spent on MCE construction costs.

Unspent bond proceeds are accounted for as construction funds on the books of the Health System. Interest payments incurred on the MOUs are also being capitalized during the period of construction. Interest costs of $33.5 million in 2014, $22.6 million in 2013, and $16.6 million in 2012 were capitalized.

In addition, the Health System expended $54.5 million in 2014, $61.2 million in 2013, and $68.9 million in 2012 for equipment, renovations and infrastructure for routine capital not related to MCE.

Other Long Term Assets and Long Term Liabilities

	2014	2013	2012
		(in thousands)	
Long Term Assets			
Investment in Subsidiaries	$ 12,851	$ 12,780	$ 11,186
Long term pledges receivable, net	11,918	13,319	7,825
Long term receivables and other assets	11,785	12,020	11,168
Total Long Term Assets	$ 36,554	$ 38,119	$ 30,179

The Health System has investment interests in a community based air ambulance/intensive care transport and in a joint venture with partial ownership in a community hospital. The change in investment balance reflects the Health System's equity interest in these investments. Included in Long term receivables and other assets are endowment assets of $4.7 million in 2014, $4.3 million in 2013, and $3.7 million in 2012.

	2014	2013	2012
		(in thousands)	
Noncurrent Liabilities			
Third-party payor settlement less current portion	$ 28,197	$ 12,466	$ 13,716
Compensated absences	56,118	51,028	49,049
Other long term liabilities	4,796	6,347	7,954
Total Long Term Liabilities	$ 89,111	$ 69,841	$ 70,719

Third Party Liabilities consists of future settlements of current and previous years Medicare and Medicaid cost reports. The increase in payable to Third Parties in 2014 reflects management's estimate for previous years Medicare and Medicaid cost report settlements. The decrease in payable to Third Parties in 2013 reflects settlement activity for both University Hospital and the James and 2012 reflects the recognition of $10.3 million in Tefra rebasing settlements for the James. Compensated absences reflect the liability for earned but unused vacation and the potential payment of ill time upon an employee's termination or retirement. The increase in Compensated absences from 2012 to 2014 is reflective of increased salaries and a larger workforce. The decrease in Other long term liabilities from 2012 to 2014 reflect the recognition of deferred revenue arising from OSU Physicians' rights to use the integrated medical record system.

Net Position

Net Position represents the residual interest in the Health System's assets after liabilities are deducted. The composition of the Health System's Net Position at June 30, 2014, 2013 and 2012 is summarized as follows:

	2014	2013	2012
		(in thousands)	
Net Position			
Invested in capital assets, net of related debt	$ 409,487	$ 397,732	$ 318,275
Restricted, nonexpendable	3,434	4,268	3,782
Restricted, expendable	47,730	37,668	27,471
Unrestricted	605,137	484,549	439,975
Net Position	$1,065,788	$ 924,217	$ 789,503

Invested in capital assets, net of related debt are the Health System's capital assets net of accumulated depreciation and outstanding principal balances of debt obtained for acquiring, constructing, and improving those assets. Net Position is further categorized into Restricted-Nonexpendable, Restricted-Expendable, and Unrestricted. Please see the Notes to the Consolidated Financial Statements for further definition.

Consolidated Statement of Revenues, Expenses, and Change in Net Position
The Statement of Revenues, Expenses, and Changes in Net Position represents the Health System's results of operations. A comparison of revenues, expenses and other changes in net position for the years ended June 30, 2014, 2013, and 2012 is as follows:

	Fiscal Year June 30,		
	2014	2013	2012
		(in thousands)	
Income and Change in Net Position			
Operating Revenues	$ 2,130,784	$ 2,029,057	$ 1,913,545
Operating Expenses	1,896,336	1,814,343	1,738,342
Operating Income	234,448	214,714	175,203
Non-Operating (Expenses)	(5,349)	(8,441)	(2,042)
Transfers of captial contributions	-	-	24,763
Income Before Other Changes in net position	229,099	206,273	197,924
Medical Center investments	$ (120,526)	$ (115,805)	$ (99,002)
Capital contributions	32,569	43,761	34,924
Additions to permanent endowments	429	485	3,782
Increase in Net Position	$ 141,571	$ 134,714	$ 137,628
Net Position - Beginning of Year	924,217	789,503	651,875
Net Position - End of Year	$ 1,065,788	$ 924,217	$ 789,503

Operating Revenues
Total operating revenues grew $101.7 million, or 5.0% from the prior year. The increases from 2012 to 2014 are a result of increased activity levels, with the remaining increase resulting from higher case intensity, strong payor mix, and increased rates from third party payors. Approximately 97% of total operating revenues are from patient care activities. Other operating revenue is composed of items such as reference labs, cafeteria operations, rental agreements and other sources.

	Fiscal Year June 30, 2014	2013	2012
		(in thousands)	
Revenues			
Net patient service revenue	$ 2,067,963	$ 1,966,892	$ 1,854,720
Other operating revenues	62,821	62,165	58,825
Total operating revenue	$ 2,130,784	$ 2,029,057	$ 1,913,545

Net Patient Service Revenue reflects charges to patients for clinical services provided, net of contractual allowances and other discounts, and provision for bad debts. Most patients have insurance coverage which pays for those services (third party payors). As is common in the industry, most reimbursement from third party payors are at a substantial discount from patient charges.

The major third party payors are Medicare - the federal program for the aged; Medicaid – the state program covering various underserved constituencies; and Managed Care – health coverage typically provided by employers through various insurance companies.

Medicare pays most inpatient and outpatient care on prospectively determined case rates. Additional payments are made to the Health System for medical education, caring for a disproportionate share of low income patients, certain transplant costs, and cases with unusually high cost of care. Additionally, The James is one of 11 cancer hospitals nationwide exempt from the inpatient prospective payment system. As such, Medicare reimburses The James reasonable inpatient costs of care (subject to limitation), determined through annual cost reports. CMS completed a special audit of these hospitals and retroactively updated the cost limitations for fiscal years 2007 through 2011. The impact of this “rebasing” of cost limits was a gain of approximately $10.3 million, which was recorded in Patient Service Revenue in 2012. Medicare pays The James on prospectively determined outpatient rates, subject however to minimum floors.

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2014. 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.

Subject to income and asset levels, Medicaid pays for care under its Programs for Children, Families, and Pregnant Women; Aged Blind and Disabled program; and premium assistance for Medicare program. As with Medicare, Medicaid pays for inpatient and outpatient services on prospectively determined case rates, with provision for cases having unusually high costs. As an exempt hospital for Medicare, The James is exempt from the case based system for Medicaid and is reimbursed for the reasonable cost of inpatient and outpatient services provided to patients. Effective January 1, 2014, new regulations under the Patient Protection and Affordable Care Act allow states to extend coverage to additional eligible enrollees. Medicaid expansion is part of an effort to get health insurance coverage for Ohio’s working poor. The Health System has seen an increased insured population and a shift from Self Pay to Medicaid as well as a significant decrease in Charity Care as a result of Medicaid expansion.

Contracts with Managed Care organizations are negotiated and include different payment methods. Many of the contracts are case based or per diem for inpatients, with combination of case rates and percent of charges for outpatients. Managed Care organizations may also offer plans to

Medicare and Medicaid beneficiaries. These plans typically pay negotiated rates, but usually on a basis consistent with traditional Medicare or Medicaid plans. The State of Ohio mandates that patients eligible for Programs for Children, Families, and Pregnant Women enroll in a Medicaid managed care plan. Patients eligible under the Aged, Blind and Disabled program were mandated to enroll in a Medicaid managed care plan starting July 1, 2013.

The Health System also has contractual relationships with other payors. It provides much of the acute care needs for The Ohio Department of Corrections, has relationships with various Bureau of Workers Comp managed care payors, and other state and federal agencies.

Effective July 1, 2013, corrections/inmates under 21 or over 64 years are covered under Medicaid. Previously, the Health System was reimbursed directly through the Ohio Department of Corrections. Also on July 1, 2013 any pregnant inmate is covered by Medicaid for inpatient or outpatient services. The rest of the inmate population shifted to Medicaid for health coverage on January 1, 2014.

The Health System provides care to patients without insurance. It participates in Ohio's Hospital Care Assurance Program which provides for free care to patients whose income levels are below 100% of the Federal Poverty Level (FPL) Guidelines. The Health System also provides sliding scale charity discounts for self pay patients up to 400% of the FPL.

Payor mix for the Health System has remained relatively consistent throughout the past several years. As discussed above, the increase in Medicaid and decrease in Self Pay and Other is due to healthcare reform and Medicaid expansion. The payor mix for the 2014, 2013 and 2012 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2014**	**2013**	**2012**
Managed Care	38.8 %	39.0 %	39.0 %
Medicaid	19.2 %	17.8 %	16.3 %
Medicare	35.9 %	35.5 %	33.8 %
Self Pay and Other	6.1 %	7.7 %	10.9 %
	100.00 %	100.0 %	100.0 %

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2014, 2013, and 2012 is summarized as follows:

	Fiscal Year June 30,		
	2014	**2013**	**2012**
Expenses		**(in thousands)**	
Salaries and Benefits	$ 1,025,295	$ 977,074	$ 936,495
Supplies and Drugs	411,962	395,856	385,795
Purchased Services	285,130	269,357	253,398
Depreciation	77,133	79,344	75,984
Other Expenses	96,816	92,712	86,670
Total operating expenses	$ 1,896,336	$ 1,814,343	$ 1,738,342

Operating expenses grew $82.0 million, or 4.5% from 2013 to 2014 and $76.0 million, or 4.4% from 2012 to 2013 reflecting changes in activities and preparation for the opening of the new James Cancer Hospital and Critical Care tower. Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 1.6% from 2013 to 2014. The Health System employed nearly 11,000 full time equivalent employees in 2014, 10,500 in 2013, and 10,200 in 2012. Adjusted for activities, supply cost decreased 2.1% from 2013 to 2014 as aggressive contracting and strategic sourcing initiatives kept price increases down. Substantially all of the capital expenditures associated with the new Cancer Hospital and Critical Care Tower are recorded as Construction in Progress, for which no depreciation expense is yet recognized.

Nonoperating Revenue and Expenses

The Health System incurred a total of $42.9 million in interest cost in 2014, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. Of this amount, $9.4 million is recognized as a period expense in 2014. The remaining $33.5 million of interest is for the construction of the MCE, and is being capitalized as a cost of the asset. The Health System incurred a total of $33.2 million and $26.1 million in interest cost in 2013 and 2012, respectively, with the majority paid to the University to service debt incurred on behalf of the Health System. Of these amounts, $10.6 million and $9.5 million were recognized as period expense in each respective year. The remaining $22.6 million of interest in 2013 and $16.6 million in 2012 was for the construction of the MCE, and was capitalized as a cost the asset each year.

Income Before Other Changes in Net Position

The Health System's Income before changes in Net Position for fiscal year 2014 totaled $229.1 million. This compares to Income before changes in Net Position of $206.3 million in 2013 and $197.9 million in 2012. This increase in income has continued to strengthen the financial position of the Health System in support of patient care, the Medical Center Expansion project, and investments in research and educational programs

Other Changes in Net Position

The Health System's Other changes in net position for fiscal year 2014 includes Medical Center Investments of $120.5 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $115.8 million in 2013 and $99.0 million in 2012.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows provides additional information about the System's major sources and uses of cash. A comparison of Cash Flows for the three years ended June 30, 2014, 2013, and 2012 is summarized as follows:

	2014	2013	2012
		(in thousands)	
Cash flows			
Receipts from patients and third-party payors	$2,051,747	$1,970,455	$1,793,634
Payments to and on behalf of employees	(1,069,520)	(1,017,987)	(990,611)
Payments to vendors for supplies and services	(685,988)	(669,823)	(615,204)
Other operating activities	5,965	7,280	10,181
Net cash provided by operating activities	302,204	289,925	198,000
Cash flows from non capital financing activities	2,032	2,201	8,171
Cash flows from capital financing activities	(130,610)	(108,874)	(100,710)
Cash flows from investing activities	(120,461)	(149,490)	(102,784)
Net increase in cash	53,165	33,762	2,677
Cash at beginning of year	187,965	154,203	151,526
Cash at end of year	$ 241,130	$ 187,965	$ 154,203

Net cash provided by operating activities totaled $302.2 million in 2014, an increase of $12.3 million compared to 2013. The Health System had solid results from operations and increased payables and accrued expenses.

Net cash used in capital financing activities totaled $130.6 million in 2014, an increase of $21.7 million from 2013 to 2014 as the Health System's debt service to support Medical Center Expansion grew. Net cash used in investing activities totaled $120.5 million, a decrease of $29.0 million as funds deposited into assets whose use is limited were reduced.

Future Direction

The Health System is actively positioning itself to respond to the profound changes in the healthcare environment which present new challenges and opportunities. We are witnessing a transformation toward a value-based healthcare system that will require us to continue to provide high quality care with superior outcomes. We have aggressively implemented cutting edge information technology strategies and continue to enhance tertiary care delivery across a broader geographic area. Our ambulatory strategy continues to significantly expand its presence in the community. Coupled with the integration of the medical staff into the Faculty Group Practice, we are providing a unified framework to manage changes in reimbursement, changes in practice patterns, and alignment in strategies. Implementation of Epic physician billing will create synergies with the Health System and OSUP and will create opportunities for administrative cost reduction. We have effectively controlled and reduced costs of supplies and will continue to do so through standardization and strategic sourcing. Cost control will be the most significant impact facing healthcare and we believe we have established the foundation for effective use of resources through the Organization Effectiveness and Efficiency program and the establishment of a formal Project Management Office. As a responsible, future-focused organization, The Health System will continue to be proactive in responding to all challenges and opportunities of the healthcare environment and expects to build upon its strong financial position and operating results during the upcoming year. We will continue to play a key role in supporting the Medical Center and in its status as a leading academic medical center.

The Ohio State University Wexner Medical Center Health System
Statements of Net Position *(in thousands)*
June 30, 2014 and 2013

	June 30, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	$ 241,130	$ 187,965
Patient accounts receivable, net of estimated uncollectibles of $69,756 in 2014 and $29,655 in 2013	262,548	238,596
Pledge receivables, net	3,893	6,536
Other receivables	22,398	14,422
Inventory	21,365	19,323
Prepaid expenses and other assets	2,634	3,025
Total current assets	553,968	469,867
Assets whose use is limited	284,044	203,395
Investment in subsidiaries	12,851	12,780
Capital assets, net	1,294,311	1,082,739
Long term pledge receivables, net	11,918	13,319
Long term receivables and other assets	11,785	12,020
Total noncurrent assets	1,614,909	1,324,253
Total assets	$ 2,168,877	$ 1,794,120
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 97,967	$ 80,378
Accrued salaries and benefits	31,187	32,136
Third-party payor settlements	-	2,541
Current portion of long-term debt and capital leases	44,273	41,072
Total current liabilities	173,427	156,127
Long-term debt and capital leases less current portion	840,551	643,935
Compensated absences	56,118	51,028
Third-party payor settlements less current portion	28,197	12,466
Other long term liabilities	4,796	6,347
Total noncurrent liabilities	929,662	713,776
Total liabilities	1,103,089	869,903
Net Position		
Invested in capital assets, net of related debt	409,487	397,732
Restricted:		
Nonexpendable	3,434	4,268
Expendable	47,730	37,668
Unrestricted	605,137	484,549
	1,065,788	924,217
Total liabilities and net position	$ 2,168,877	$ 1,794,120

The accompanying notes are an integral part of these financial statements

The Ohio State University Wexner Medical Center Health System
Statements of Revenues, Expenses and Changes in Net Position *(in thousands)*
June 30, 2014 and 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Operating Revenues		
Net patient service revenue	$ 2,213,839	$ 2,085,478
Provision for bad debt	(145,876)	(118,586)
Net patient service revenue less provision for bad debt	2,067,963	1,966,892
Other revenue	62,821	62,165
Total operating revenue	2,130,784	2,029,057
Operating Expenses		
Salaries and benefits	1,025,295	977,074
Supplies and drugs	411,962	395,856
Purchased services	285,130	269,357
Depreciation	77,133	79,344
Other expenses	96,816	92,712
Total expenses	1,896,336	1,814,343
Operating income	234,448	214,714
Non-Operating Revenues (Expenses)		
Interest expense	(9,442)	(10,636)
Income from investments	1,532	1,473
Gifts	1,347	1,052
Other non-operating revenues (expenses)	1,214	(330)
Total Non-Operating (Expenses)	(5,349)	(8,441)
Income Before Other Changes in Net Position	229,099	206,273
Other Changes in Net Position		
Medical Center investments	(120,526)	(115,805)
Capital contributions	32,569	43,761
Additions to permanent endowments	429	485
Total Other Changes in Net Position	(87,528)	(71,559)
Increase in Net Position	141,571	134,714
Net position - beginning of year	924,217	789,503
Net position - end of year	$ 1,065,788	$ 924,217

The accompanying notes are an integral part of these financial statements

The Ohio State University Wexner Medical Center Health System
Statements of Cash Flows *(in thousands)*
June 30, 2014 and 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 2,051,747	$ 1,970,455
Other receipts	65,356	62,689
Payments to and on behalf of employees	(1,069,520)	(1,017,987)
Payments to vendors for supplies and services	(685,988)	(669,823)
Payments on other expenses	(59,391)	(55,409)
Net cash provided by operating activities	302,204	289,925
Cash flows from non-capital financing activities		
Gift receipts for current use	1,603	1,716
Additions to permanent endowments	429	485
Net cash provided by non-capital financing activities	2,032	2,201
Cash flows from capital financing activities		
Proceeds from issuance of long-term debt	-	586
Proceeds from sale of capital assets	4,389	-
Purchase of capital assets	(54,522)	(61,243)
Repayments of long-term debt and capital lease obligations	(49,073)	(34,175)
Cash paid for interest	(42,256)	(24,393)
Payments to improve capital assets	(1,406)	-
Contributions for property acquisitions	12,258	10,351
Net cash used in capital financing activities	(130,610)	(108,874)
Cash flows from investing activities		
Medical Center investments	(120,526)	(115,805)
Deposit into assets whose use is limited	494	(33,200)
Purchase of long term investments	(429)	(485)
Net cash used in investing activities	(120,461)	(149,490)
Net increase in cash and cash equivalents	53,165	33,762
Cash and cash equivalents at beginning of year	187,965	154,203
Cash and cash equivalents at end of year	$ 241,130	$ 187,965
Reconciliation of operating income to net cash provided in operating activities		
Operating Income	$ 234,448	$ 214,714
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation	77,133	79,344
Changes in operating assets and liabilities:		
Decrease (increase) in patient accounts receivable	(23,952)	16,685
Decrease (increase) in other receivables	(7,976)	525
Decrease (increase) in inventories	(2,042)	1,597
Decrease (increase) in prepaid expenses and other assets	391	1,540
Increase (decrease) in accounts payable/accrued expenses	8,422	(15,088)
Increase (decrease) in accrued salaries and benefits	(949)	3,964
Decrease (increase) in third party payor settlements	13,190	(5,686)
Increase (decrease) in compensated absences	5,090	1,979
Increase (decrease) in other liabilities	(1,551)	(9,649)
Net cash provided by operating activities	$ 302,204	$ 289,925

The accompanying notes are an integral part of these financial statements

NOTE 1 – ORGANIZATION

The Ohio State University Wexner Medical Center Health System (the "Health System" or the "System") operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of departments representing the financial activities of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and 16 primary care locations. As a series of departments of The Ohio State University (the "University"), the System is included in the consolidated financial statements of the University and is exempt from income taxes under Internal Revenue Code Section 115.

The Health System is an operating unit of The Ohio State University Wexner Medical Center ("OSUWMC") which also includes the College of Medicine, Office of Health Sciences, OSU Physicians, and the OSU Health Plan.

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

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. Statement No. 68 also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. It is effective for periods beginning after June 15, 2014.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Statement No. 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Management is currently assessing the impact that implementation of GASB Statements No. 68 and 71 will have on the Health System's 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 regarding the reported amounts. The most significant areas requiring estimates relate to accounts receivable allowances for contractual adjustments and bad debts, settlement liabilities with third party payors, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 Position
Net position is 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 position subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the University for the benefit of the Health System. These assets primarily consist of the Health System's permanent endowments.

  Expendable – Net position 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 position that is not subject to externally-imposed stipulations. Unrestricted net position 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 of $241,130 at June 30, 2014 and $187,965 at June 30, 2013 consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts held at the University. Health System cash is pooled with other operating units within the University and earns interest income at rates established through the University's internal bank program.

Patient Accounts Receivable and Estimated Payables to Third-Party Payors
A substantial portion of the 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. 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 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 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 the 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 and Richard J. Solove Research Institute 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 based upon All Patient Refined (APR-DRGs). This is applicable for every business unit except the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, 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 and Richard J. Solove Research Institute, 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. Effective January 1, 2014, new regulations under the Patient Protection and Affordable Care Act allow states to extend coverage to additional eligible enrollees. Medicaid expansion is part of an effort to get health insurance coverage for Ohio's working poor.

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, 2014. 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 Ohio State University Hospital for Medicare was for fiscal year ended June 30, 2009 and June 30, 2008 for Medicaid. The most recent settled cost report for the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute for Medicare was fiscal year ended June 30, 2009 and June 30, 2008 for Medicaid.

Contributions and Pledges Receivable
The University receives pledges and bequests of financial support from corporations, foundations and individuals, including amounts relating to the capital expansion and patient care activities of the Health System. Contributions and pledges receivable are recorded in the Health System's consolidated financial statements. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. Property contributions received in fiscal years 2014 and 2013 totaled $7,234 and $21,019 respectively and are recorded in Contributions for property acquisitions within Other Changes in Net Position.

Pledges receivable are reported net of allowance for uncollectable pledges. As estimated by management, the allowance for uncollectable pledges totaled $486 at June 30, 2014 and $1,141 at June 30, 2013. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

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

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

These funds are 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

Notes to Consolidated Financial Statements *(in thousands)

Assets whose use is limited consisted of the following at June 30, 2014 and 2013:

	2014	2013
Funds held for capital replacement	$ 86,619	$ 86,305
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
University held funds	149,394	69,059
Total	$ 284,044	$ 203,395

University held funds includes bond proceeds for the Medical Center Expansion Project of $88,887 and $8,059 for the fiscal years ending June 30, 2014 and 2013, respectively.

Endowment Funds
All University endowments are invested in the University's long term investment pool and are invested and administered according to University policy. Certain endowment fund assets, namely funds relating to the Health System capital expansion and patient care activities, have been recorded in the Health System's consolidated financial statements beginning in fiscal year 2012 based upon the concurrent determination that the underlying activities are to be recorded by the Health System. Each named Health System fund is assigned a number of shares in the University long term investment pool based on the value of the gifts, income to principal transfers, or transfers of operating funds to the named fund. Annual distributions from the funds are computed using the share method of accounting for pooled investments. Health System endowment fund assets are included in Long term receivables and other assets on the Statement of Net Position, and totaled $4,698 and $4,268 at June 30, 2014 and 2013, respectively.

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

Capital Assets
Capital asset acquisitions are recorded at cost or at fair value at date of donation. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. The life of buildings range from 5-40 years, for equipment the range is 2-20 years, and for leasehold improvements the range is 3-16 years. The Health System 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.

Net Patient Service Revenues
Patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated and retroactive settlements. Net patient service revenue for the years ended June 30, 2014 and 2013 are summarized as follows:

Notes to Consolidated Financial Statements *(in thousands)

	2014	2013
Total patient service revenue	$ 6,646,967	$ 6,410,117
Contractual allowances and other discounts	(4,433,128)	(4,324,639)
Provision for bad debts	(145,876)	(118,586)
Net patient service revenue	$ 2,067,963	$ 1,966,892

With the advent of insurance exchanges in fiscal year 2014 and continued movement of insured patients to higher deductible plans, a larger portion of payment has shifted to become the responsibility of the patient. Based on increased visibility and history of payment impact from these types of plans, management has refined its allocation of revenue deductions from contractual adjustments to provision for bad debts of approximately $34,000. Total deductions from revenue are not impacted by this refinement.

Additionally, net patient service revenue amounts recognized from major payor sources (based on primary payor) for fiscal 2014 and 2013, respectively, is as follows:

2014	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and other discounts)	$ 2,135,563	$ 78,276	$ 2,213,839

2013	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and other discounts)	$ 2,005,667	$ 79,811	$ 2,085,478

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 under-served, the uninsured and the under-insured. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues or patient accounts receivable.

The total cost of charity care provided is determined using a ratio of costs to gross charges calculation methodology. The total cost of charity care is reduced by support received under the Health Care Assurance Program (HCAP) to arrive at net cost of charity care. HCAP is administered by the State of Ohio to help hospitals cover a portion of the costs of providing charity care. The cost of providing charity for the fiscal years 2014 and 2013 are as follows:

	2014	2013
Total cost of charity care	$ 53,319	$ 57,390
Less Health Care Assurance Program support	(20,710)	(21,463)
Net cost of charity care	$ 32,609	$ 35,927

Notes to Consolidated Financial Statements *(in thousands)

Estimated Medical Liability Costs
The Health System recognizes medical liability contributions paid to The University's Self Insurance Program as a period expense. See NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2014 and 2013 is summarized as follows:

	2014			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 27,875	$ -	$ 2,783	$ 25,092
Buildings	435,667	14,050	11,646	438,071
Leasehold Improvements	25,292	1,349	-	26,641
Equipment - fixed	242,479	2,127	34	244,572
Equipment - moveable	440,985	38,106	10,990	468,101
Construction in progress	633,908	290,489	55,632	868,765
	1,806,206	346,121	81,085	2,071,242
Less accumulated depreciation	723,467	77,133	23,669	776,931
Capital assets, net	$ 1,082,739	$ 268,988	$ 57,416	$ 1,294,311

The increase in construction in progress of $234,857 in fiscal year 2014 represents capital expenditures of $290,489 (including capitalized interest of $33,455 and $9,167 of accrued capital), net of capital assets placed in service of $55,632. Of the total $346,121 additions in fiscal year 2014, the Health System directly expended $54,522. The balance of this capital activity is due primarily from construction in progress funded directly by the University through borrowings (see Note 4), bond construction funds (see Note 2) and capital contributions and gifts.

	2013			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 24,816	$ 5,570	$ 2,511	$ 27,875
Buildings	408,140	36,248	8,721	435,667
Leasehold Improvements	22,496	2,796	-	25,292
Equipment - fixed	249,812	2,541	9,874	242,479
Equipment - moveable	424,047	33,884	16,946	440,985
Construction in progress	416,650	298,297	81,039	633,908
	1,545,961	379,336	119,091	1,806,206
Less accumulated depreciation	681,560	79,344	37,437	723,467
Capital assets, net	$ 864,401	$ 299,992	$ 81,654	$ 1,082,739

The increase in construction in progress of $217,258 in fiscal year 2013 represents capital expenditures of $298,297 (including capitalized interest of $22,625), net of capital assets placed in

Notes to Consolidated Financial Statements *(in thousands)

service of $81,039. Of the total $379,336 additions in fiscal year 2013, the Health System directly expended $61,243. The balance of this capital activity is due primarily from construction in progress funded directly by the University through borrowings (see Note 4), bond construction funds (see Note 2) and capital contributions and gifts.

NOTE 4 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2014 is summarized as follows:

	2014			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
University Bonds:				
2013, 4.75% through 2032	$ 172,470	$ 248,978	$ 18,445	$ 403,003
2010, 4.95% through 2030	314,500	-	11,760	302,740
2008, 3.83%-4.03% through 2029	67,663	-	3,209	64,454
2005, 3.83%-4.03% through 2026	60,817	-	3,941	56,876
2003, 4.32%-4.57% through 2024	36,123	-	3,571	32,552
1999, 5.14% through 2030	6,359	-	302	6,057
Other Financing:				
2013, 4.50% through 2021	5,397	-	636	4,761
2012, 2.25%-4.00% through 2019	5,162	-	1,654	3,508
2010, 3.65%-5.84% through 2021	14,861	-	3,988	10,873
2009, 2.06%-5.26% through 2014	1,564	-	1,564	-
Interim University financing	91	-	91	-
Total long-term obligations	685,007	248,978	49,161	884,824
Less current portion of long-term debt	41,072	44,273	41,072	44,273
Net long-term debt	$ 643,935	$ 204,705	$ 8,089	$ 840,551

The $248,978 additions to debt from the University in fiscal year 2014 were used to fund Medical Center Expansion construction in progress. Of the $18.5 million reductions incurred for the 2013 bonds, $4.9 million was related to FY13 principal payments.

Notes to Consolidated Financial Statements *(in thousands)

Long-term debt activity for the year ended June 30, 2013 is summarized as follows:

	2013			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2013, 4.75% through 2032	$ -	$ 172,470	$ -	$ 172,470
2010, 4.95% through 2030	325,693	-	11,193	314,500
2008, 3.83%-4.03% through 2029	70,747	-	3,084	67,663
2005, 3.83%-4.03% through 2026	64,602	-	3,785	60,817
2003, 4.32%-4.57% through 2024	39,540	-	3,417	36,123
1999, 5.14% through 2030	6,653	-	294	6,359
1992, 6.30% through 2012	1,033	-	1,033	-
Other Financing:				
2013, 4.50% through 2021		5,500	103	5,397
2012, 2.25%-4.00% through 2019	8,471	-	3,309	5,162
2010, 3.65%-5.84% through 2021	18,715	-	3,854	14,861
2009, 2.06%-5.26% through 2014	3,052	-	1,488	1,564
2008, 2.84%-4.00% through 2013	1,354	-	1,354	-
2007, 2.81%-4.05% through 2013	1,261	-	1,261	-
Interim University financing	5,005	-	4,914	91
Total long-term obligations	546,126	177,970	39,089	685,007
Less current portion of long-term debt	34,467	41,072	34,467	41,072
Net long-term debt	$ 511,659	$ 136,898	$ 4,622	$ 643,935

Of the $177,970 additions to debt from the University in fiscal year 2013, the Health System directly received $586, which resulted when $4,914 of interim University funding was refinanced as part of the $5,500 received in 2013. The remaining additions to debt were used to fund construction in progress.

The University maintains an Internal Bank financing program through which it loans funds to operating units of the University. The Health System signs Memorandums of Understanding (MOUs) with the University to borrow funds under this program.

University Bonds
The University has issued general receipts bonds, and has allocated a portion of those to the Health System with no premium or discount on the debt. Since 2008 the purpose of this debt has been the continued funding of the Medical Center Expansion project. During fiscal year 2014, the Health System borrowed another $248,978 for 19 years at an interest rate of 4.75%. The 2013 MOUs included a provision to borrow $38,042 in fiscal year 2015 for 18 years at an interest rate of 4.75%. Bond funding prior to 2008 was acquired for various hospital construction and renovation projects.

Notes to Consolidated Financial Statements *(in thousands)

Other Financing
During 2013, the Health System borrowed $5,500 for equipment at CarePoint East at a rate of 4.5% for 8 years. Other financing prior to 2013 was used primarily to finance hospital renovation projects, purchase of medical equipment, and for the implementation of the new integrated healthcare information system (IHIS).

Scheduled principal and interest payments on long-term debt based on scheduled maturities for the next five years and in subsequent five year periods are as follows:

	Principal	Interest	Total
2015	$ 44,273	$ 40,655	$ 84,928
2016	44,556	38,624	83,180
2017	44,840	36,593	81,433
2018	45,809	34,500	80,309
2019	46,728	32,342	79,070
2020-2024	256,280	127,091	383,371
2025-2029	274,202	64,359	338,561
2030-2032	128,136	8,210	136,346
	$ 884,824	$ 382,374	$ 1,267,198

NOTE 5 – OPERATING LEASES

The Health System leases various buildings and office space under operating lease agreements. These facilities are not recorded as assets on the Statement of Net Position. Operating leases related to equipment are not significant. Total operating lease and rental expense for fiscal years 2014 and 2013 were $19,347 and $19,795, respectively.

The following is a schedule for the next five years and in subsequent five year periods of future minimum lease payments under operating leases as of June 30, 2014, that have initial or remaining lease terms in excess of one year:

2015	$ 13,438
2016	9,802
2017	9,516
2018	9,242
2019	8,420
2020-2024	41,476
2025-2029	42,982
2030-2034	11,134
	$ 146,010

NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY

On July 1, 2003, the Health System joined with OSU Physicians (OSUP), a component unit of The Ohio State University, to establish a self-insurance fund for professional and patient general liability claims (Fund II), covering the hospitals as well as the employed physicians of OSUP. Previous to July 1, 2003, the Health System was self-insured through the University's established self-insurance fund for professional and general liability (Fund I). The assets and liabilities of both funds are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. Annual contributions to the fund(s) are actuarially determined and recorded as period expenses. The medical liability expense for the Health System totaled $3,525 and $3,362 for fiscal year 2014 and fiscal year 2013, respectively.

The University has also established a pure captive insurer (Oval Limited) that provides excess liability coverage over Fund I and Fund II. Both funds retain $4,000,000 per occurrence with various annual aggregate limits. Oval Limited covers up to $55 million per occurrence with a $55 million annual aggregate limit in excess of the Fund I and II limits. A portion of the risk written to date is reinsured by a combination of three reinsurance companies each of which has a minimum rating of A- by A.M. Best. Oval Limited's net retention is 50% of the first $15 million and 0% for the remaining $40 million per occurrence.

Oval Limited assets and liabilities are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expenses and totaled $5,465 in fiscal year 2014 and $5,151 in fiscal year 2013.

There has not been a settlement in the past three fiscal years which exceeded the combined limits provided by Fund I or Fund II and Oval Limited. The Health System has not made any additional contributions in the last three years beyond its actuarially determined and Self Insurance Board approved premiums.

NOTE 7 - RETIREMENT PLANS

Health System employees, as part of The Ohio State University, 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 Health System has no assets or liabilities of STRS Ohio, OPERS, or ARP included in its financial statements. Employer contributions to the plans by the Health System for its employees are included as a benefit expense in its Statement of Revenues, Expenses, and Changes in Net Position.

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

Notes to Consolidated Financial Statements *(in thousands)

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	OPERS, Attn: Finance Director
275 East Broad Street	277 East Town Street
Columbus, OH 43215-3371	Columbus, OH 43215-4642
(614) 227-4090	(614) 222-5601
(888) 227-7877	(800) 222-7377
www.strsoh.org	www.opers.org/investments/cafr.shtml

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

OPERS currently provides post-employment 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 the Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2013, OPERS allocated 1.0% of the employer contribution rate to fund the health care program for retirees, and this rate was increased to 2.0% for calendar year 2014 as recommended by the OPERS actuary.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012 with a transition plan that commenced on January 1, 2014. OPERS expects to be able to allocate on a consistent basis 4% of employer contributions toward the health care fund after the end of the transition period.

STRS Ohio currently provides access to health care coverage to retirees who participated in the defined benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, 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 costs 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, 2013, STRS Ohio allocated employer contributions equal to 1.0% of covered payroll for post-employment health care.

Post-employment 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, post-retirement 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, post-retirement 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 post-retirement 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 post-retirement 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 post-retirement health care benefits. OPERS provides retirement, disability, survivor and post-retirement health benefits to qualifying members of the combined plan.

OPERS currently provides post-employment 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 calendar year 2013, OPERS allocated 1.0% of the employer contribution rate to fund the health care program for retirees, and this rate was increased to 2.0% for calendar year 2014 as recommended by the OPERS actuary.

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 Health System are as follows:

Notes to Consolidated Financial Statements *(in thousands)

	STRS Ohio	OPERS	ARP
Faculty	11.00 %		11.00 %
Plan member (entire year)	14.00 %		14.00 % *
University (entire year)			
Staff			
Plan member (entire year)		10.00 %	10.00 %
University (entire year)		14.00 %	14.00 % **
Law Enforcement			
Plan member (7/1/13-12/31/13)		12.60 %	12.60 %
Plan member (1/1/14-6/30/14)		13.00 %	13.00 %
University (entire year)		18.10 %	17.33 % **

* Employer contributions include 4.5% paid to STRS Ohio.
** Employer contributions include .77% paid to OPERS.
The remaining amount is credited to employee's ARP account.

The University's contributions, including the Health System's, which represent 100% of required employer contributions, for the year ended June 30, 2014 and for each of the two preceding years are as follows:

Year Ended June 30,	STRS Ohio Annual Required Contribution	OPERS Annual Required Contribution	ARP Annual Required Contribution
2012	$ 58,006	$ 153,118	$ 43,523
2013	$ 61,667	$ 159,903	$ 47,062
2014	$ 63,953	$ 166,591	$ 47,911

NOTE 8 – COMPENSATED ABSENCES

Health System 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 (primarily classified civic service) may receive compensatory time in lieu of overtime pay. Any unused compensatory 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 Health System 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

Notes to Consolidated Financial Statements *(in thousands)

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 Health System calculates a ratio, Sick Leave Termination Cost per Year Worked, which is based on the Health System'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.

See the rollforward of compensated absences activity as included in Note 9.

NOTE 9 – OTHER LONG TERM LIABILITIES

Other long term liability activity for the years ending June 30, 2014 and 2013 is summarized as follows:

	2014			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 51,028	$ 7,393	$ 2,303	$ 56,118
Third party payor settlements	15,007	15,731	2,541	28,197
Other long term liabilities	6,347	-	1,551	4,796
	72,382	23,124	6,395	89,111
Less current portion third-party payor settlements	2,541	-	2,541	-
Net other long term liabilities	$ 69,841	$ 23,124	$ 3,854	$ 89,111

	2013			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 49,049	$ 5,010	$ 3,031	$ 51,028
Third party payor settlements	17,357	-	2,350	15,007
Other long term liabilities	7,954	-	1,607	6,347
	74,360	5,010	6,988	72,382
Less current portion third-party payor settlements	3,641	-	1,100	2,541
Net other long term liabilities	$ 70,719	$ 5,010	$ 5,888	$ 69,841

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, 2014 and 2013 is summarized as follows:

Notes to Consolidated Financial Statements *(in thousands)

Payor - Receivables	2014	2013
Medicare	22 %	20 %
Medicaid	19 %	13 %
Managed Care	54 %	60 %
Self Pay	5 %	7 %
Total	100 %	100 %

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. University overhead charged to the Health System is recorded in Other expenses and was $48,452 and $45,855 for the years ended June 30, 2014 and 2013, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected $85.2 million for healthcare services in 2014 and $87.3 million in 2013 and is reflected in Net patient service revenue.

OSU Physicians
The Health System leases the IDX patient management, accounting and billing software and related hardware to OSU Physicians, Inc. (OSUP). In conjunction with the implementation of an integrated health information system, the Health System has recorded $464 and $2,696 in current receivables as of June 30, 2014 and 2013, respectively and $6,538 in long term receivables as of June 30, 2014 and 2013 from OSUP to cover OSUP's share of the system's implementation and operating 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.

College of Medicine
The Health System transfers funds to the College of Medicine for support of programs and research which are recorded as Medical Center investments. Medical Center investments totaled $120,526 for fiscal year 2014 and $115,805 for fiscal year 2013 and are reflected as Other Changes in Net Position.

Oval
The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense and totaled $5,465 for fiscal year 2014 and $5,151 for fiscal year 2013. See NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

MedFlight
The Health System has an investment interest in a community based air ambulance/intensive care transport. The investment reflects the Health System's equity interest of $10,303 for fiscal year 2014 and $10,206 for fiscal year 2013.

OSU Mount Carmel Health Alliance
The Health System has a joint venture with Mount Carmel with partial ownership in Madison County Hospital which are recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of $2,457 for fiscal year 2014 and $2,446 for fiscal year 2013.

NOTE 12 – CONTINGENCIES

The Health System is a party in a number of legal actions. 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, results from operations, or cash flows.

NOTE 13 - COMPLIANCE

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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 cost report settlements recorded at June 30, 2014 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 October 22, 2014, the date the consolidated financial statements were issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

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

To the Board of Trustees of
The Ohio State University

We have audited, 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, the consolidated financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, which comprise the consolidated statement of net position as of June 30, 2014, and the related consolidated statements of revenue, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Health System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency:

Review of Patient Accounts Receivable Reserve Model

Observation: Based on our audit procedures performed on the valuation of patient accounts receivable ("AR"), it was determined that certain search formulas, query logic and adjudication assumptions within the model were being applied to the June 30, 2014 AR data incorrectly, which resulted in post-close adjustments to the consolidated financial statements. Performing a detailed review of the inputs to the AR model ensures the accuracy of the contractual allowance and bad debt provision balances per the general ledger at year-end.

Recommendation: We recommend management perform an appropriate level of review over the data inputs into the model. Furthermore, we recommend that management apply their reserve assumptions to the Adjudicated AR (net) separate from the Non-adjudicated AR (gross) within their model, especially as the volume of up front claim adjudication increases in future years.

Management Response: We agree with the recommendation. In September, we implemented separate models for adjudicated versus non-adjudicated claim processing and have refined data sources necessary to support the new approach.

Subsequent cash collections are the ultimate standard by which receivables valuation is measured and the Health System has a consistent record of valuing receivables accurately. We monitor cash collections daily, weekly and monthly for any indication of a change in receivable value. The changes implemented in September will provide additional strength to our existing receivables valuation process and will be important in the era of insurance exchanges and high deductible health plans.

The Health System's Response to Findings

The Health System's response to the finding above identified in our audit was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health System's consolidated financial statements are free from 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 consolidated 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Columbus, OH
October 22, 2014

Dave Yost • Auditor of State

OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER 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
DECEMBER 2, 2014

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