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, 2013 and 2012, 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, 2012 through June 30, 2013. 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

Dave Yost
Auditor of State

November 15, 2013

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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

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Independent Auditor's Report

To the Board of Trustees of
The Ohio State University

Report on the Consolidated Financial Statements

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, 2013 and June 30, 2012, 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.

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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Health System as of June 30, 2013 and June 30, 2012, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Health System present only the financial position, changes in financial position, and cash flows of that portion of the financial reporting entity of The Ohio State University that is attributable to the transactions of the Health System. They do not purport to, and do not, present fairly the financial position of The Ohio State University at June 30, 2013 and June 30, 2012, and the changes in its financial position or its cash flows for the years then ended in conformity 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 13 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic 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 financial statements in the 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 financial statements, and other knowledge we obtained during our audit of the basic 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, 2013 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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

October 22, 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, 2013, 2012, and 2011. 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 nation's leading academic medical centers. 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, Dodd Rehabilitation Hospital, four comprehensive outpatient care centers, an ambulatory surgery center, a comprehensive breast treatment center, and 29 clinics. The System provided services to more than 56,000 adult inpatients and 1,485,000 outpatients during Fiscal Year 2013.

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 21 consecutive years as one of "America's Best Hospitals" and has 10 nationally ranked specialties. It is designated as a Level I Trauma Center, has the only adult burn center in Central Ohio, and is home to a Level III neonatal intensive care unit.

A $1.1 billion construction project broke ground in 2010, representing the largest development project in The Ohio State University's history. Once complete, the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, a Critical Care Center, as well as 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 144 critical care beds. Construction is expected to be completed in late calendar year 2014, and it is estimated that more than 310,000 patients will be served annually when the facility is opened.

In October 2011, the Health System converted to a single, integrated and personalized medical record across the continuum of a patient's interaction with the Health System (Integrated Health Information System or IHIS). All members of the Health System team now use the same system to access and enter information into the inpatient and outpatient medical and financial records. In May 2012, The Ohio State University Wexner Medical Center was the first hospital in Ohio and among only 86 of the more than 5,000 hospitals in the nation to achieve the highest designation for electronic medical record adoption. The Health System is also extending the Integrated Health Information System into the community hospital and community practice setting and continues to develop additional relationships with community and state healthcare providers to leverage its electronic medical record systems.

Over 20 partner hospitals participate in the Health System's Telestroke Medicine hub which leverages innovative technologies 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,		
	2013	**2012**	**2011**
Selected Statistics			
Admissions	56,592	56,170	56,869
Avg. Daily Census	925	910	883
Outpatient Visits	1,485,147	1,398,549	1,206,992
Emergency Visits	118,280	122,499	120,625
Surgeries	38,627	37,700	36,417

In 2013, the Health System 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 move to an outpatient setting and to an increased use of observation beds. Outpatient visits increased 6.2% over the previous year, as the Health System continued its ambulatory strategy and experienced growth at the Eye and Ear Institute, CarePoint and Fast Care facilities, Stefanie Spielman Comprehensive Breast Center, and other primary care and specialty care clinics.

The Health System continued to experience growth in more complex surgical, neurological, neonatal intensive care, cancer, and cardiovascular admissions, which contributed to increases in revenues, average length of stay, and average daily census. Total surgeries increased 2.5% compared to prior year.

Income before other changes in Net Position was $206.3 million versus $197.9 million in 2012 (after a $24.7 million one-time recognition of development funds). Excluding the one-time recognition noted above, income before other changes in Net Position grew by 19.1% over 2012, reflecting strong outpatient activities, a strong patient mix and maintaining expenses in line with activities.

Changes to Net Position included $115.8 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 $23.1 million of the total grant was recognized under Contribution for Property Acquisitions as a change in Net Position in 2013 and $30.4 million in 2012. The remaining amounts will be funded by HRSA on a cost sharing basis, once the allowable costs have been incurred. Additionally, $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, the Health System's Net Position increased $134.7 million in 2013 and $137.6 million in 2012.

As with all healthcare providers, we will be challenged by the impact of Healthcare Reform. The impact of insurance exchanges, managed care rates, and sequestration continues to cause uncertainty in the environment for hospitals nationwide. Regardless, 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. We are 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 locally and statewide to form strategic alliances.

We are 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. We have effectively controlled and reduced costs of supplies and pharmaceuticals and will continue to do so through standardization and strategic sourcing. Significant effort is being placed in streamlining and refining revenue cycle activities. Ohio State University Physicians (OSUP) will implement the Epic Physician Billing system in July of 2014 and will be integrated with the Health System's Epic patient and revenue cycle systems. As such, activities such as centralized patient scheduling, insurance precertification, payment at point of service and other administrative activities can be consolidated across the Medical Center.

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 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 Statement of Net Position at June 30, 2013, 2012, and 2011 is summarized as follows:

	2013	2012	2011
		(in thousands)	
Current assets	$ 469,867	$ 450,063	$ 399,423
Noncurrent assets			
Assets whose use is limited	203,395	189,051	317,253
Capital assets, net	1,082,739	864,401	661,362
Other	38,119	30,179	11,320
Total assets	1,794,120	1,533,694	1,389,358
Other current liabilities	115,055	127,346	126,073
Current portion of			
Long-term debt and capital leases	41,072	34,467	32,546
Total current liabilities	156,127	161,813	158,619
Noncurrent liabilities			
Long-term debt and capital leases	643,935	511,659	494,921
Other noncurrent liabilities	69,841	70,719	83,943
Total liabilities	869,903	744,191	737,483
Net Position	$ 924,217	$ 789,503	$ 651,875

Current Assets and Current Liabilities

		2013		2012		2011
				(in thousands)		
Current Assets						
Cash and cash equivalents						
on deposit with the University	$	187,965	$	154,203	$	151,526
Patient accounts receivable, net		238,596		255,281		205,991
Inventories, Prepaids, Other Receivables		43,306		40,579		41,906
Total Current Assets	**$**	**469,867**	**$**	**450,063**	**$**	**399,423**

Cash and cash equivalents on deposit with the University represents the Health System cash, which is pooled with 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 resulted from solid operating performance and strong cash collections on patient receivables.

Patient accounts receivable, net represent amounts due from third party payors and patients after allowances for discounts and bad debts. The Health System implemented its Integrated Healthcare Information System (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. By the end of the 2012 fiscal year, the Health System achieved pre-implementation metrics in third party receivables, after allowing for an increase in the payment period implemented by Medicare. As of the end of the 2013 fiscal year, Patient accounts receivable, net decreased approximately $17 million reflecting continued optimization of IHIS.

		2013		2012		2011
				(in thousands)		
Current Liabilities						
Accounts payable and accrued expenses	$	80,378	$	95,533	$	67,117
Accrued salaries & benefits		32,136		28,172		43,467
Current portion of long-term debt		41,072		34,467		32,546
Third-party payor settlements		2,541		3,641		15,489
Total Current Liabilities	**$**	**156,127**	**$**	**161,813**	**$**	**158,619**

Payables and accrued expenses decreased from 2012 to 2013 due to timing of payables runs and a decrease in patient accounts receivable credit balances. Accrued salaries and benefits increased because of the number of days increased in the year-end accrual.

Assets whose use is limited

	2013	2012 (in thousands)	2011
Assets whose use is limited			
Construction funds held for MCE	$ 8,059	$ 27,247	$ 155,606
Funds held for capital replacement	86,305	85,973	85,316
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	61,000	27,800	28,300
Total Assets Limited as to Use	**$ 203,395**	**$ 189,051**	**$ 317,253**

Assets whose use is limited is composed 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, and are included in the discussion in the next section.

Capital Assets, Medical Center Expansion, and Long Term Debt

	2013	2012 (in thousands)	2011
Capital Assets - Net			
Property, Plant, and Equipment	$ 1,172,298	$ 1,129,311	$ 1,029,333
Construction In Progress	633,908	416,650	245,481
Accumulated Depreciation	(723,467)	(681,560)	(613,452)
Capital Assets - Net	**$ 1,082,739**	**$ 864,401**	**$ 661,362**

Medical Center Expansion construction continues on the tower containing the new James Cancer Hospital and new critical care units. Scheduled to open in late calendar year 2014, it has capacity for 420 new beds.

Components of Medical Center Expansion 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**

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 2013, $53.5 million ($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 $223.8 was spent on MCE construction costs in 2013.

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 $172.5 million for MCE in 2013. These proceeds were used to fund construction and pay back previous short term borrowings. These borrowings have an interest rate of 4.75% and are being serviced over 20 years. A total of $46.6 million of principal and interest was incurred in 2013 and $33.3 million in 2012 for MCE. Of the $46.6 million, $12.3 million will be paid in 2014. The 2013 MOUs included a provision to borrow $248,978 in fiscal year 2014 for 19 years at an interest rate of 4.75% and $38,042 in fiscal 2015 for 18 years at an interest rate of 4.75%.

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 cost of $22.6 million in 2013 and $16.6 million in 2012 were capitalized.

In addition, the Health System expended approximately $61.2 million for equipment, renovations and infrastructure for routine capital not related to MCE.

Other Long Term Assets and Long Term Liabilities

	2013	2012 (in thousands)	2011
Long Term Assets			
Investment in Subsidiaries	$ 12,780	$ 11,186	$ 10,146
Long term pledges receivable, net	13,319	7,825	-
Long term receivables and other assets	12,020	11,168	1,174
Total Long Term Assets	**$ 38,119**	**$ 30,179**	**$ 11,320**

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 reflects the Health System's equity interest in these investments. In 2012, a long term receivable of $6.5 million was reclassified from Other Current Receivables to Other Long Term Receivables, reflecting OSU Physicians' (OSUP) portion of IHIS implementation costs. In its 2012 financial statements, the Health System began to record pledges, endowment fund assets, and bequests of support from corporations, foundations and individuals in support of capital expansion and patient care activities. Previously, these activities were recorded only in the University's financial statements. Included in Long term receivables and other assets are endowment assets of $4.3 million in 2013 and $3.7 million in 2012.

	2013	2012 (in thousands)	2011
Noncurrent Liabilities			
Third-party payor settlements less current portion	$ 12,466	$ 13,716	$ 28,839
Compensated absences	51,028	49,049	44,245
Other long term liabilities	6,347	7,954	10,859
Total Long Term Liabilities	**$ 69,841**	**$ 70,719**	**$ 83,943**

Third Party Liabilities consists of future settlements of current and previous years Medicare and Medicaid cost reports. 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. Accrued 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 Accrued Compensated Absences in 2013 and 2012 are reflective of increased salaries and a larger workforce. Other long term liabilities from 2011 to 2013 reflect the recognition and adjustments of deferred revenue arising from OSU Physicians' rights to use the integrated medical record.

Net Position

Net Position represents the residual interest in the System's assets after liabilities are deducted. The composition of the System's Net Position at June 30, 2013, 2012 and 2011 is summarized as follows:

	2013	2012	2011
		(in thousands)	
Net Position			
Invested in capital assets, net of related debt	$ 397,732	$ 318,275	$ 133,895
Restricted, nonexpendable	4,268	3,782	-
Restricted, expendable	37,668	27,471	-
Unrestricted	484,549	439,975	517,980
Net Position	**$ 924,217**	**$ 789,503**	**$ 651,875**

Invested in capital assets, net of related debt are the 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, 2013, 2012, and 2011 is as follows:

	Fiscal Year June 30,		
	2013	2012	2011
Income and Change in Net Position		(in thousands)	
Operating Revenues	$ 2,029,057	$ 1,913,545	$ 1,706,037
Operating Expenses	1,814,343	1,738,342	1,553,461
Operating Income	214,714	175,203	152,576
Non-Operating Revenues (Expenses)	(8,441)	(2,042)	(8,037)
Transfers of contributions for property acquisitions	-	24,763	-
Income Before Other Changes in Net Position	206,273	197,924	144,539
Medical Center investments	$ (115,805)	$ (99,002)	$ (83,521)
Contributions for property acquisitions	43,761	34,924	9,044
Additions to permanent endowments	485	3,782	-
Other Changes in Net Position	-	-	(12,753)
Increase in Net Position	$ 134,714	$ 137,628	$ 57,309
Net Position - Beginning of Year	789,503	651,875	594,566
Net Position - End of Year	$ 924,217	$ 789,503	$ 651,875

Operating Revenues

Total operating revenues grew $115.5 million, or 6% from the prior year. The increase was driven by increased activity levels discussed above, with the remaining increase resulting from higher case intensity, sustained 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,		
	2013	2012	2011
		(in thousands)	
Revenues			
Net patient service revenue	$ 1,966,892	$ 1,854,720	$ 1,658,240
Other Operating Revenues	62,165	58,825	47,797
Total Operating Revenue	**$ 2,029,057**	**$ 1,913,545**	**$ 1,706,037**

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, 2013. 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 pregnant women, Children and Families; 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.

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 under Programs for Children, Pregnant Women and Families enroll in a Medicaid managed care plan. It is expected that patients eligible under the Aged, Blind and Disabled program will be mandated to enroll in a managed care plan during 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.

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 Guidelines (FPL). 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 constant throughout the past several years. The decrease in Self Pay and Other is partly due to reduced activities with The Ohio Department of Corrections and partly due to earlier identification of alternative payor sources for self pay patients. The payor mix for the 2013, 2012 and 2011 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2013**	**2012**	**2011**
Managed Care	39.0%	39.0%	38.1%
Medicaid	17.8%	16.3%	16.4%
Medicare	35.5%	33.8%	33.5%
Self Pay and Other	7.7%	10.9%	12.0%
	100.0%	100.0%	100.0%

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2013, 2012, and 2011 is summarized as follows:

	Fiscal Year June 30,		
	2013	2012	2011
		(in thousands)	
Expenses			
Salaries and benefits	$ 977,074	$ 936,495	$ 846,586
Supplies and drugs	395,856	385,795	340,686
Purchased services	269,357	253,398	213,898
Depreciation	79,344	75,984	69,828
Other expenses	92,712	86,670	82,463
Total Operating Expenses	**$ 1,814,343**	**$ 1,738,342**	**$ 1,553,461**

Operating expenses grew $76.0 million, or 4.4%, reflecting changes in activities and price increases. Adjusted for activities, total operating expense decreased 1.8% compared to prior year. The Health System employs over 10,000 full time equivalent employees, up approximately 400 over 2012. Adjusted for activities, drug expenses decreased 1.6% from prior year due to improved drug utilization, purchasing rates, and rebates. Adjusted for activities, supply cost grew only 1.0% compared to prior year as strategic sourcing initiatives kept price increases down. Substantially all of the expenditures associated with the new Cancer Hospital and Critical Care Tower are recorded as Construction in Progress, for which no depreciation expense is recorded.

Non Operating Revenue and Expenses

The Health System incurred a total of $33.2 million in interest cost, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. Of this amount, $10.6 million is recognized as a period expense in 2013. The remaining $22.6 million of interest is for the construction of the MCE, and is being capitalized as a cost of the asset.

Income before changes in Net Position

The Health System's Income before changes in Net Position for fiscal year 2013 totaled $206.3 million. This compares to Income before changes in Net Position of $197.9 million in 2012, which included a one-time recognition of Contributions for property acquisitions of $24.7 million, which the University had received in years prior to fiscal 2012. This increase in income allowed continued strengthening of the balance sheet in support of the Medical Center Expansion project and investments in research and educational programs.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows provides additional information about the System's results by major sources and uses of cash. A comparative summary of cash flows for June 30, is:

	2013	2012	2011
		(in thousands)	
Cash flows			
Receipts from patients and third-party payors	$ 1,970,455	$ 1,793,634	$ 1,650,561
Payments to and on behalf of employees	(1,017,987)	(990,611)	(877,743)
Payments to vendors for supplies and services	(669,823)	(615,204)	(566,920)
Other operating activities	7,280	10,181	(8,634)
Net cash provided by operating activities	289,925	198,000	197,264
Cash flows from non capital financing activities	2,201	8,171	-
Cash flows from capital financing activities	(108,874)	(100,710)	(87,259)
Cash flows from investing activities	(149,490)	(102,784)	(83,521)
Net (decrease) increase in cash	33,762	2,677	26,484
Cash at beginning of year	$ 154,203	$ 151,526	$ 125,042
Cash at end of year	$ 187,965	$ 154,203	$ 151,526

Cash and Cash Equivalents provided from operations totaled $289.9 million in 2013, an increase of $91.9 million compared to 2012. The Health System had solid results from operations, strong cash collections, and a decrease in patient accounts receivable, offset by decreased payables. Cash flows from capital financing activities decreased as the Health System debt service to support Medical Center Expansion grew. Cash flow from investing activities decreased as additional funds were reinvested in research, education and clinical programs at the Medical Center.

Future Direction

The Medical Center is actively positioning itself to respond to healthcare reform. We have aggressively implemented cutting edge information technology strategies and continue to enhance leading edge tertiary care delivery across a broader geographic area. Over the past several years, our ambulatory strategy has significantly expanded our presence in the community, and coupled with the integration of the medical staff into the Faculty Group Practice we are providing a unified framework to manage changes in reimbursement, change 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 pharmaceuticals 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 laid the foundation for effective use of resources through the Organization Effectiveness and Efficiency program and the establishment of a formal Project Management Office.

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
STATEMENTS OF NET POSITION
(in thousands)

Assets	**June 30, 2013**	**June 30, 2012**
Current assets:		
Cash and cash equivalents on deposit with the University	$ 187,965	$ 154,203
Patient accounts receivable, net of estimated uncollectibles of $29,655 in 2013 and $37,757 in 2012	238,596	255,281
Pledges receivable, net	6,536	1,375
Other receivables	14,422	13,719
Inventory	19,323	20,920
Prepaid expenses and other assets	3,025	4,565
Total current assets	469,867	450,063
Assets whose use is limited	203,395	189,051
Investment in subsidiaries	12,780	11,186
Capital assets, net	1,082,739	864,401
Long term pledge receivables, net	13,319	7,825
Long term receivables and other assets	12,020	11,168
Total noncurrent assets	1,324,253	1,083,631
Total assets	$ 1,794,120	$ 1,533,694
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 80,378	$ 95,533
Accrued salaries and benefits	32,136	28,172
Third-party payor settlements	2,541	3,641
Current portion of long-term debt and capital leases	41,072	34,467
Total current liabilities	156,127	161,813
Long-term debt and capital leases less current portion	643,935	511,659
Compensated absences	51,028	49,049
Third-party payor settlements less current portion	12,466	13,716
Other long term liabilities	6,347	7,954
Total noncurrent liabilities	713,776	582,378
Total liabilities	869,903	744,191
Net Position		
Invested in capital assets, net of related debt	397,732	318,275
Restricted:		
Nonexpendable	4,268	3,782
Expendable	37,668	27,471
Unrestricted	484,549	439,975
Total net position	924,217	789,503
Total liabilities and net position	$ 1,794,120	$ 1,533,694

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)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Operating Revenues		
Net patient service revenue	$ 2,085,478	$ 1,944,932
Provision for bad debts	(118,586)	(90,212)
Net patient service revenue less provision for bad debts	1,966,892	1,854,720
Other revenue	62,165	58,825
Total Operating Revenue	2,029,057	1,913,545
Operating Expenses		
Salaries and benefits	977,074	936,495
Supplies and drugs	395,856	385,795
Purchased services	269,357	253,398
Depreciation	79,344	75,984
Other expenses	92,712	86,670
Total Expenses	1,814,343	1,738,342
Operating Income	214,714	175,203
Non-Operating Revenues (Expenses)		
Interest expense	(10,636)	(9,517)
Income from investments	1,473	2,843
Gifts	1,052	4,720
Other non-operating expenses	(330)	(88)
Total Non-Operating Revenues (Expenses)	(8,441)	(2,042)
Transfers of contributions for property acquisitions	-	24,763
Income Before Other Changes in Net Position	206,273	197,924
Other Changes in Net Position		
Medical Center investments	(115,805)	(99,002)
Contributions for property acquisitions	43,761	34,924
Additions to permanent endowments	485	3,782
Total Other Changes in Net Position	(71,559)	(60,296)
Increase in Net Position	134,714	137,628
Net Position - Beginning of Year	789,503	651,875
Net Position - End of Year	$ 924,217	$ 789,503

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)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 1,970,455	$ 1,793,634
Other receipts	62,689	59,887
Payments to and on behalf of employees	(1,017,987)	(990,611)
Payments to vendors for supplies and services	(669,823)	(615,204)
Payments on other expenses	(55,409)	(49,706)
Net cash provided by operating activities	289,925	198,000
Cash flows from non-capital financing activities		
Gift receipts for current use	1,716	4,389
Additions to permanent endowments	485	3,782
Net cash provided by non-capital financing activities	2,201	8,171
Cash flows from capital financing activities		
Proceeds from issuance of long-term debt	586	16,423
Purchase of capital assets	(61,243)	(68,937)
Repayments of long-term debt and capital lease obligations	(34,175)	(35,264)
Cash paid for interest	(24,393)	(25,089)
Contributions for property acquisitions	10,351	12,157
Net cash used in capital financing activities	(108,874)	(100,710)
Cash flows from investing activities		
Medical Center investments	(115,805)	(99,002)
Deposit into assets whose use is limited	(33,200)	-
Purchase of long term investments	(485)	(3,782)
Net cash used in investing activities	(149,490)	(102,784)
Net increase in cash and cash equivalents	33,762	2,677
Cash and cash equivalents at beginning of year	154,203	151,526
Cash and cash equivalents at end of year	$ 187,965	$ 154,203
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	214,714	175,203
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation	79,344	75,984
Changes in operating assets and liabilities:		
Decrease (increase) in patient accounts receivable	16,685	(49,290)
Decrease (increase) in other receivables	525	6,791
Decrease in third party payor settlements	(5,686)	(26,971)
Increase (decrease) in accrued salaries and benefits	3,964	(15,295)
Increase in compensated absences	1,979	4,804
Increase (decrease) in accounts payable/accrued expenses	(15,088)	28,416
Increase (decrease) in other liabilities	(9,649)	-
Decrease in inventories	1,597	(708)
Decrease in prepaid expenses and other assets	1,540	(934)
Net cash provided by operating activities	$ 289,925	$ 198,000

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, Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, The Richard M. Ross Heart Hospital, The Ohio State University Hospital East, OSU Harding Hospital, The Ohio State University Ambulatory Care, The Ohio State University Specialty Care Network and several affiliates. As a series of 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.

Certain amounts have been reclassified from the prior year to conform to the current year presentation. These reclassifications had no material impact on the previously reported consolidated statement of Net Position.

New Accounting Pronouncements:

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management is currently assessing the impact that implementation of Statement No. 65 will have on the Health System's financial statements.

Also in March 2012, the GASB issued Statement No. 66, *Technical Corrections -- 2012*. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for certain operating lease payments, purchases of loans and mortgage loan servicing fees. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management is currently assessing the impact that implementation of Statement No. 66 will have on the Health System's financial statements.

In June 2012, the GASB issued two related accounting standards, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and expands required note disclosures and Required Supplementary Information. It is effective for periods beginning after June 15, 2013.

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 net assets set aside to pay pension benefits. For cost-sharing employers, the net pension liability is equal to the employer's proportionate share of the collective net pension liability for the plan. Statement No. 68 is effective for periods beginning after June 15, 2014.

The Health System participates in two cost-sharing defined benefit pension plans, the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS-Ohio). Based on information provided in the most recently available financial reports for the pension plans, management anticipates that Statements No. 67 and 68 will have a significant impact 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 permanently.

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 $187,965 at June 30, 2013 and $154,203 at June 30, 2012 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 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.

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, 2013. 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, 2007 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, 2008 and June 30, 2007 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 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 were to be recorded by the Health System. 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 2013 and 2012 totaled $21,019 and $4,569, respectively and are recorded in Contributions for property acquisitions within Other Changes in Net Position. Property contributions received by the University prior to fiscal year 2012 relating to the Health System's capital expansion project totaled $24,763 and have been recorded as Transfers of contributions for property acquisitions in fiscal year 2012.

Pledges receivable are reported net of allowance for uncollectable pledges. As estimated by management, the allowance for uncollectable pledges totaled $1,141 at June 30, 2013 and $352 at June 30, 2012. 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.

(in thousands)

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

Assets whose use is limited consisted of the following at June 30, 2013 and 2012.

	2013	2012
Funds held for capital replacement	$ 86,305	$ 85,973
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
University held funds	69,059	55,047
Total	$ 203,395	$ 189,051

University held funds includes bond proceeds for the Medical Center Expansion Project of $8,059 and $27,247 for the fiscal years ending June 30, 2013 and 2012, 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 $4,268 and $3,782 at June 30, 2013 and 2012, respectively.

Investments in Subsidiaries:

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

(in thousands)

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, 2013 and 2012 are summarized as follows:

	2013	2012
Total patient service revenue	$ 6,410,117	$ 5,852,580
Contractual allowances and other discounts	(4,324,639)	(3,907,648)
Provision for bad debts	(118,586)	(90,212)
Net patient service revenue	$ 1,966,892	$ 1,854,720

Additionally, net patient service revenue amounts recognized from major payor sources for fiscal 2013 and 2012, respectively, is as follows:

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

2012	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 1,846,616	$ 98,316	$ 1,944,932

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 2013 and 2012 are as follows:

(in thousands)

	2013	2012
Total cost of charity care	$ 57,390	$ 61,491
less Health Care Assurance Program support	(21,463)	(23,009)
Net cost of charity care	$ 35,927	$ 38,482

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, 2013 and 2012 is summarized as follows:

	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 24,816	$ 5,570	$ 2,511	$ 27,875
Buildings	408,140	36,248	8721	435,667
Leasehold Improvements	22,496	2,796	-	25,292
Equipment - fixed	249,812	2,541	9874	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 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.

	2012			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 24,268	$ 550	$ 2	$ 24,816
Buildings	377,806	30,396	62	408,140
Leasehold Improvements	21,573	923	-	22,496
Equipment - fixed	246,409	3,479	76	249,812
Equipment - moveable	359,277	72,655	7,885	424,047
Construction in progress	245,481	279,172	108,003	416,650
	1,274,814	387,175	116,028	1,545,961
Less accumulated depreciation	613,452	75,984	7,876	681,560
Capital assets, net	$ 661,362	$ 311,191	$ 108,152	$ 864,401

The increase in construction in progress of $171,169 in fiscal year 2012 represents capital expenditures of $279,172 (including capitalized interest of $16,623), net of capital assets placed in service of $108,003. Of the total $387,175 additions in fiscal year 2013, the Health System directly expended $68,937. 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.

(in thousands)

NOTE 4 – LONG-TERM DEBT

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

	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2012, 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 in fiscal year 2013, the Health System directly received $586, which resulted when $4,914 of interim University financing was refinanced as part of the $5,500 received in 2013. The remaining additions to debt were used to fund construction in progress directly by the University.

(in thousands)

Long-term debt activity for the year ended June 30, 2012 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2010, 4.95% through 2030	$ 298,452	$ 37,500	$ 10,259	$ 325,693
2008, 3.83%-4.03% through 2029	73,710		2,963	70,747
2005, 3.83%-4.03% through 2026	68,236		3,634	64,602
2003, 4.32%-4.57% through 2024	42,809		3,269	39,540
1999, 5.14% through 2030	6,940		287	6,653
1992, 6.30% through 2012	3,038		2,005	1,033
Other Financing:				
2012, 2.25%-4.00% through 2019		11,683	3,212	8,471
2010, 3.65%-5.84% through 2021	22,439		3,724	18,715
2009, 2.06%-5.26% through 2014	4,769		1,717	3,052
2008, 2.84%-4.00% through 2013	2,975		1,621	1,354
2007, 2.81%-4.05% through 2013	3,834		2,573	1,261
Interim University financing	265	4,740		5,005
Total Long Term Obligations	**527,467**	**53,923**	**35,264**	**546,126**
Less Current Portion of Long-Term Debt	32,546	34,467	32,546	34,467
Net Long Term Debt	**$ 494,921**	**$ 19,456**	**$ 2,718**	**$ 511,659**

Of the $53,923 additions in fiscal year 2012, the Health System directly received $16,243, with the remaining balance used to fund construction in progress directly by the University.

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 2013, the Health System borrowed another $172,470 for 20 years at an interest rate of 4.75%. The 2013 MOUs included a provision to borrow $248,978 in fiscal year 2014 for 19 years at an interest rate of 4.75% and $38,042 in fiscal 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.

Other Financing

During 2013, the Health System borrowed $5,500 for equipment at CarePoint East at a rate of 4.5% for 8 years. During fiscal year 2012, the Health System received $5,280 at a rate of 2.25% for a term of 5 years to finance the purchase of medical equipment. Debt of $6,403 at 4.00% for two years was obtained through vendor financings, primarily for the implementation of a new integrated healthcare information system during the fiscal year. Additional interim financings from the University totaling $4,740 were mainly used for facility renovation and equipment purchases required for the start up of CarePoint East. Other financings prior to 2012 were acquired for various hospital renovation projects and equipment purchases.

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:

(in thousands)

	Principal	Interest	Total
2014	$ 41,072	$ 30,988	$ 72,060
2015	35,590	29,386	64,976
2016	35,452	27,781	63,233
2017	35,294	26,197	61,491
2018	35,799	24,567	60,366
2019-2023	191,672	97,006	288,678
2024-2028	198,154	50,886	249,040
2029-2033	111,974	8,563	120,537
	$ 685,007	$ 295,374	$ 980,381

NOTE 5 – OPERATING LEASES

The Health System leases various buildings, office space, and equipment under operating lease agreements. These facilities and items are not recorded as assets on the Statement of Net Position. Total operating lease and rental expense for fiscal years 2013 and 2012 were $19,795 and $23,100, 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, 2013, that have initial or remaining lease terms in excess of one year:

2014	$ 13,823
2015	11,040
2016	8,082
2017	7,800
2018	7,551
2019-2023	32,466
2024-2028	31,153
2029-2033	12,932
	$ 124,847

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 liability claims (Fund II), covering the hospitals as well as the physicians of OSUP. Previous to July 1, 2003, the Health System was self insured through the University for professional and general liability (Fund I). The assets and liabilities of both funds are 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 $3,362 and $2,938 for fiscal year 2013 and fiscal year 2012, respectively.

The University has also established a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Both funds have retention of $4 million per occurrence. Unique to Fund II is aggregate loss of $14 million per fiscal year 2010; 2011; 2012; and 2013. Oval Limited covers up to $55 million per occurrence with a $55 million annual aggregate limit. A portion of the risk written to date is reinsured by a combination of three reinsurance companies rated A by A. M. Best. Oval Limited's net retention is 50% of the first $15 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 $5,151 in fiscal year 2013 and $4,476 in fiscal year 2012.

There have been no settlements in the past three fiscal years which have exceeded the coverage provided by Fund I, Fund II, or Oval Limited. The Health System has not made any additional contributions in the last 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 adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. Both STRS Ohio and OPERS issue separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the two organizations.

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

OPERS, Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org/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 2012, OPERS allocated 4.0% of the employer contribution rate to fund the health care program for retirees, and this rate was reduced to 1% for calendar year 2013 as recommended by the OPERS actuary.

Changes to the health care plans were adopted by the OPERS Board of Trustees on September 19, 2012 with a transition plan commencing 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 deferred benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2012, STRS Ohio allocated employer contributions equal to 1% 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

(in thousands)

(ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2012, OPERS allocated 6.05% of the employer contribution rate to fund the health care program for retirees, and this rate was reduced to 1% for calendar year 2013 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:

	STRS Ohio	OPERS	ARP
Faculty:			
Plan member (entire year)	10.00%		10.00%
university (entire year)	14.00%		14.00%*
Staff:			
Plan member (entire year)		10.00%	10.00%
university (entire year)		14.00%	14.00%**
Law Enforcement:			
Plan member (entire year)		12.10%	12.10%
university (entire year)		18.10%	17.33%**

* Employer contributions include 3.5% 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, 2013 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
2011	$54,725	$148,120	$40,835
2012	$58,006	$153,118	$43,523
2013	$61,667	$159,903	$47,062

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.

(in thousands)

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 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, 2013 and 2012 is summarized as follows:

	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

	2012			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 44,245	$ 6,741	$ 1,937	$ 49,049
Third party payor settlements	44,328	-	26,971	17,357
Other long term liabilities	10,859	-	2,905	7,954
	99,432	6,741	31,813	74,360
Less current portion third-party payor settlements	15,489	-	11,848	3,641
Net other long term liabilities	$ 83,943	$ 6,741	$ 19,965	$ 70,719

(in thousands)

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, 2013 and 2012 is summarized as follows:

Payor - receivables	2013	2012
Medicare	20 %	20 %
Medicaid	13	14
Managed Care	60	59
Self Pay	7	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 $45,855 and $43,046 for the years ended June 30, 2013 and 2012, respectively.

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 $2,696 and $3,700 in current receivables as of June 30, 2013 and 2012, respectively and $6,538 in long term receivables as of June 30, 2013 and 2012 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 $115,805 for fiscal year 2013 and $99,002 for fiscal year 2012 and are reflected as other changes in Net Position.

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, 2013 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, 2013, 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"), which comprise the statement of net position as of June 30, 2013, and the related statement of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2013.

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. 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.

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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Health System in a separate letter dated October 22, 2013.

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

October 22, 2013

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THE 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 3, 2013