

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**Combined Financial Statements
For the Years Ended
June 30, 2010 and 2009
And
Independent Auditors' Report**





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The Ohio State University Health Plan, Inc., Franklin County, prepared by Parns & Company, LLC, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 26, 2011

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**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Ohio State University Health Plan, Inc.

We have audited the accompanying combined balance sheets of The Ohio State University Health Plan, Inc. (the Health Plan) as of June 30, 2010 and 2009, and the related combined statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Health Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of The Ohio State University Health Plan, Inc. as of June 30, 2010 and 2009, and the combined results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, on our consideration of the Health Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Parms & Company, LLC

December 28, 2010

THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.
Combined Balance Sheets
As of June 30, 2010 and 2009

ASSETS	2010	2009
Current Assets:		
Cash and cash equivalents	\$ 2,563,699	\$ 2,710,823
Investments	513,541	391,404
Accounts receivable	216,372	167,894
Prepaid expenses	-	4,830
Total current assets	3,293,612	3,274,951
Property and Equipment:		
Furniture and equipment	453,221	206,843
Less: accumulated depreciation	(231,141)	(206,843)
Net property and equipment	222,080	-
Deferred tax asset	67,000	28,600
Other assets - deposit	14,704	14,704
Total Assets	\$ 3,597,396	\$ 3,318,255
 <u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Account payables - trade	\$ 122,724	\$ 42,013
Amounts due OSU	1,571,395	1,315,354
Income taxes payable	-	10,566
Accrued salaries, wages, and related liabilities	393,111	305,038
Unearned revenue	-	67,678
Total current liabilities	2,087,230	1,740,649
Equity:		
Paid in capital	1,500,000	1,500,000
Retained Earnings	10,166	77,606
Total Equity	1,510,166	1,577,606
Total Liabilities and Retained Earnings	\$ 3,597,396	\$ 3,318,255

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

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.
Combined Statements of Income
For the Years Ended June 30, 2010 and 2009**

	2010	2009
<u>REVENUES</u>		
Capitation fees from affiliates	\$ 6,287,487	\$ 4,269,466
Other capitation fees	-	126,645
University subsidies	82,915	1,897,923
Consulting, coaching and university access fees	572,624	
Pharmacy services management fees	1,637,468	724,012
Other revenues	82,153	172,130
Total revenues	8,662,647	7,190,176
<u>EXPENSES</u>		
Salaries	4,905,783	3,608,401
Employee benefits	1,083,048	1,139,070
Other expenses	277,114	81,365
Purchased services	1,328,568	1,706,211
Office rental	453,855	257,326
Supplies	292,935	201,759
Reproduction Services	33,461	68,344
Communications	84,957	72,287
Travel	45,963	9,152
Equipment Rental & Repair	148,647	58,018
Mailing Services	11,008	19,310
Depreciation	24,298	-
Other expenses	78,850	-
Total expenses	8,768,487	7,221,243
Net Income (Loss) Before Income Tax Expense	(105,840)	(31,067)
Provision for Income Tax Benefit	38,400	-
Net Loss	\$ (67,440)	\$ (31,067)

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

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**
Combined Statements of Retained Earnings
As of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Retained earnings- beginning of year	\$ 77,606	\$ 108,673
Net loss	(67,440)	(31,067)
Retained earnings- end of year	<u>\$ 10,166</u>	<u>\$ 77,606</u>

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

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.
Combined Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009**

	2010	2009
OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (67,440)	\$ (31,067)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Unrealized loss on investments	4,430	9,962
Depreciation	24,298	-
Deferred income taxes	(38,400)	-
Changes in assets and liabilities:		
Accounts receivable	(48,478)	1,844
Prepaid expenses	4,830	47,904
Accounts payable	336,752	850,487
Accrued salaries, wages and related liabilities	88,073	44,092
Income taxes payable	(10,566)	10,566
Deferred revenue	(67,678)	67,678
	225,821	1,001,466
INVESTING ACTIVITIES:		
Purchase of investments	(126,567)	(401,366)
Fixed asset purchases	(246,378)	-
Net cash used in investing activities	(372,945)	(401,366)
FINANCING ACTIVITIES:		
Capital contribution	-	1,500,000
Net cash provided by financing activities	-	1,500,000
NET CHANGE IN CASH	(147,124)	2,100,100
CASH AT BEGINNING OF YEAR	2,710,823	610,723
CASH AT END OF YEAR	\$ 2,563,699	\$ 2,710,823

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

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - On July 27, 2009, the name of the Corporation was changed to The Ohio State University Health Plan, Inc. (formerly The Ohio State University Managed Health Care Systems). The Ohio State University Health Plan, Inc. (the Health Plan), was organized in December 1991 and began full operations on July 1, 1992 to promote and carry out educational, charitable and scientific purposes by conducting and supporting activities that are for the benefit, perform the functions, or carry out the purpose of The Ohio State University (the University), principally its health plans, health care facilities and its College of Medicine without regard for profit or financial gain. The Health Plan's primary activities are the performance of managed care services which include utilization review, case management and pre-certification to its contract holders and their participants on a capitation basis. Should the Health Plan cease to exist, any net assets remaining after payment of all liabilities would revert to either a selected successor organization established for substantially the same purpose or absent such a selection to the University.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash - The Health Plan maintains a cash account with a local financial institution as well as an account with the University. The University's cash holdings on behalf of the Health Plan are commingled with other University related entities and invested daily in overnight investment vehicles, which are considered cash equivalents. Investment income is allocated to the Health Plan based on their ownership of the funds included in the University's account. As of June 30, 2010 and 2009, primarily all cash holdings of the Health Plans were cash holdings held in bank accounts. Of the cash holdings as of June 30, 2010 and 2009, \$250,000 was subject to federal deposit insurance (FDIC). As of June 30, 2010 and 2009, \$2,313,699 and \$949,415, respectively, were held in bank accounts in excess of FDIC insurance. The uninsured balance is collateralized by pools of securities pledged by the depository bank and is held in the name of the respective bank.

Investments - Investments are composed of publicly-traded mutual funds and are carried at fair value. The Health Plan incurred unrealized losses of \$4,430 and \$9,962 during the years ended June 30, 2010 and 2009, respectively.

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments – The carrying values of the Health Plan’s financial instruments in the statements of financial position approximate their respective estimated fair value at June 30, 2010 and 2009. The Health Plan estimates fair values of its financial instruments using available quoted market information in accordance with FASB ASC 830 *Fair Value Measurements and Disclosures*. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Health Plan could realize in a current market exchange. Different market assumptions might have a material effect on the estimated fair value amounts.

Property and Equipment - Property and equipment is stated on the basis of cost. Depreciation of such assets is computed using the straight-line method over their estimated useful lives ranging from 5 to 7 years. Following University policy and accounting standards, equipment costing less than \$5,000 is not capitalized.

Revenue Recognition - The Health Plan earns revenue for services on a predetermined contractual basis. The Health Plan recognizes this revenue based upon a fixed fee per covered participant as specified in the participant contracts.

Combined Financial Statements – The financial statements for the years ended June 30, 2010 and 2009, have been combined to include all the health care activities managed by OSU Health Plan, Inc. The financials for the years ended June 30, 2010 and 2009, have combined the financial activities of the following health management activities for which the Health Plan provides oversight: University Health Connection Program (UHC) and Pharmacy Benefits Administration through the Rx Ohio Collaborative (RxOC).

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

The Health Plan has adopted FASB ASC 740-10-25, which clarifies accounting for uncertainty in income taxes reported in financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. There was no material impact on the Health Plan’s financial statements for the fiscal years ended June 30, 2010 and 2009, as a result of adoption.

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 2 - RELATED PARTY TRANSACTIONS

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

Under the terms of the administrative agreement, the Health Plan receives administrative services from the University, principally personnel, fringe benefits (including employee participation in the University pension plan) and other operating items, and reimburses the University for these expenses. Substantially all expenses in 2010 and 2009, were incurred under the terms of this agreement. The amounts due University of \$1,571,395 and \$1,315,354 as of June 30, 2010 and 2009, respectively, were primarily due as reimbursement of administrative services paid by the University. A significant portion of the account payable relates to pharmacy benefit program expense activity which was paid for by the University.

NOTE 3 – INVESTMENTS

The fair value of investments as of June 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Bond Mutual Fund	\$ <u>513,541</u>	\$ <u>391,404</u>

As defined in FASB ASC 820, *Fair Value* is the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs: Significant other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

Level 3 Inputs: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would rise in pricing an asset or liability.

Assets Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements At June 30, 2010 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bond Mutual Funds	-	\$ 513,541	-

	Fair Value Measurements At June 30, 2009 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bond Mutual Funds	-	\$ 391,404	-

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

NOTE 4 - ACCOUNTS RECEIVABLE

As of June 30, 2010, accounts receivables primarily represent amounts due from the University related to capitation fees earned. All amounts were deemed fully collectible.

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 5 - INCOME TAXES

The provision for Federal income taxes for the years ended June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Current	\$ -	\$ -
Deferred	<u>38,400</u>	<u>-</u>
Total	<u>\$ 38,400</u>	<u>\$ -</u>

The Health Plan's has net deferred tax assets as of June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax asset	<u>\$ 67,000</u>	<u>\$ 28,600</u>

The deferred tax asset reflects timing differences between book and tax reporting. As of June 30, 2010 and 2009, it included approximately \$8,000 and \$3,000, respectively, related to net operating loss carryforwards generated in fiscal years 2010 and 2009, which have 20 year carryforward periods. The remaining portion of the deferred tax asset was attributable to the timing differences of deductions, primarily related to vacation and sick leave.

NOTE 6 – EQUITY CONTRIBUTION

During fiscal year 2009, the University contributed \$1,500,000 as paid in capital to further capitalize the operations of Health Plan.

NOTE 7 – PHARMACY OHIO COLLABORATIVE PROGRAM

The Ohio State University Health Plan joined the Pharmacy Ohio Collaborative (RxOC) in coordination with four State of Ohio Retirement Programs in January 2009. Initially this program provided group purchasing of pharmaceuticals for the beneficiaries of the health plans for these partners. The Health Plan assumed management responsibility for the RxOC and leads the marketing efforts of the RxOC program in conjunction with Express Scripts Inc. (ESI), the current pharmacy benefits provider. The Health Plan provides leadership and management of RxOC program throughout the State of Ohio. ESI provides funding support for these services. Currently this program is being marketed to other universities, school systems and governmental entities in Ohio. A management fee is paid to the RxOC program by these entities for accessing and the services being provided. The Health Plan has copyrighted the RxOC name. Also the RxOC program is providing mediation therapy management services to the staff of the University and is planning to offer these services to staff of other entities throughout Ohio.

The Health Plan's income includes \$1,637,468 and \$724,012, in pharmacy services management fees earned during the fiscal years ended June 30, 2010 and 2009, respectively.

**THE OHIO STATE UNIVERSITY
HEALTH PLAN, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 8 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2010. Management has performed this analysis through the date of the report.

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

To the Board of Directors of
The Ohio State University
Health Plan, Inc.

We have audited the financial statements of The Ohio State University Health Plan, Inc., (the Health Plan) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2010-1

Compliance and Other Matters

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

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

Parms & Company, LLC

December 28, 2010

OSU HEALTH PLAN, INC.
SCHEDULE OF FINDINGS AND RESPONSES
AS REQUIRED UNDER GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2010

INTERNAL CONTROL FINDINGS

Finding Reference Number 2010-1

Condition:

The recording and reconciliation process of due to/from activity between the Health Plan and The Ohio State University's financial activities reflected in PeopleSoft are not being adequately performed. We noted the Health Plan utilizes a number of general ledger accounts to record due to/from activity between them and the University. Additionally, recording and reconciliation procedures are affected by operational expenses that are reimbursable by the Health Plan to the University.

Criteria:

These procedures are necessary in order to determine if any adjustments are needed.

Cause:

Management has not developed control procedures for properly recording and reconciling due to/from activity between itself and the University. The documentation for these recordings and reconciliations are not being retained to allow for review and verification of any adjustment needed.

Effect:

The effect of this deficiency is that the financial reporting process may require significant analysis and adjustment to produce reliable financials.

Corrective Action:

The Health Plan should refine its account reconciliation procedures to ensure due to/from activity with the University are consistent with the financial statements of the University. This process may require additional assistance by qualified individuals to ensure transactions are reviewed, reconciled, and considered for the impact on the year-end cutoff adjustments.

Management Response:

The management of the Health Plan will implement policies and procedures to record and reconcile its due to/from the University with its next monthly accounting and reporting period (January, 2011). This will be coordinated with the University Controller's Office and reviewed for internal control purposes with its auditors.

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Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY HEALTH PLAN, INC

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 8, 2011