

**THE OHIO STATE UNIVERSITY**  
**WEXNER MEDICAL CENTER HEALTH SYSTEM**  
(A SERIES OF DEPARTMENTS OF THE OHIO STATE UNIVERSITY)

**Financial Statements as of and for the Years Ended June 30, 2016 and 2015, Report of Independent Auditors, and Report of Independent Auditors 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 *Report of Independent Auditors* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2015 through June 30, 2016. 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.

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

Dave Yost  
Auditor of State

December 1, 2016

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# THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

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## **Report of Independent Auditors**

To the Board of Trustees of  
The Ohio State University

We have audited the accompanying financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, appearing on pages 16 to 39, which consist of the statements of net position as of June 30, 2016 and June 30, 2015 and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Health System's preparation and fair presentation of the 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 Health System'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Health System at June 30, 2016 and June 30, 2015, and the changes in financial 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 are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion 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 as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

The accompanying management's discussion and analysis on pages 3 through 15 and the Required Supplementary Information on GASB 68 Pension Liabilities on page 40 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 13, 2016 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Columbus, Ohio  
October 13, 2016

# THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

## **Introduction**

The following discussion and analysis provides an overview of the financial position and the activities of The Ohio State University Wexner Medical Center Health System (the "Health System") as of and for the years ended June 30, 2016, 2015, and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

## **About The Ohio State University Wexner Medical Center Health System**

The Ohio State University Wexner Medical Center is one of the the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and operates Ambulatory and Primary Care sites throughout central Ohio. The Health System provided services to approximately 59,300 adult inpatients and 1,724,000 outpatients during fiscal year 2016, 58,200 adult inpatients and 1,664,000 outpatients during fiscal year 2015, and 57,000 adult inpatients and 1,593,000 outpatients during fiscal year 2014.

The Health System operates nearly 1,300 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. The Wexner Medical Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 24 consecutive years as one of "America's Best Hospitals" and has eight nationally ranked specialties and is one of only a handful of hospitals in the country ranked in multiple specialties. The Medical Center is ranked in the top three percent of U.S. hospitals, the number two hospital in Ohio, and the best hospital in central Ohio demonstrating its commitment to serving the healthcare needs of the region. The Wexner Medical Center is the only medical center in Ohio to receive the Bernard A Birnbaum, MD, Quality Leadership Award from Vizient. This is the third consecutive year to receive this award given to academic medical centers that have demonstrated excellence in delivering high-quality care, as measured by the Vizient Quality and Accountability Study. The Health System works with a strong physician group that provides exceptional patient care. Seventy five percent of the central Ohio honorees listed on "Best Doctors in America" list were Ohio State faculty.

The largest development project in the history of The Ohio State University was completed in fiscal 2015. Included in the project was the construction of the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute ("The James"). The new tower is a transformational facility that fosters the collaboration and integration of cancer research and clinical cancer care. The James is the largest cancer hospital in the Midwest and the third largest in the nation. The new 21-level tower opened in December 2014. The James experienced solid volume growth in the past year as 2016 represented the first full fiscal year after the opening of the new tower. Additionally, the project included an expansion of the emergency department which has increased the number of treatment spaces from 72 to 115. The expansion of the emergency department has contributed to the growth in Health System volume.



**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

**Operating and Financial Highlights**

|                                   | <b>Fiscal Year June 30,</b> |                    |                    |
|-----------------------------------|-----------------------------|--------------------|--------------------|
|                                   | <b><u>2016</u></b>          | <b><u>2015</u></b> | <b><u>2014</u></b> |
| <b><u>Selected Statistics</u></b> |                             |                    |                    |
| Admissions                        | 59,358                      | 58,211             | 57,024             |
| Avg. Daily Census                 | 1,056                       | 1,011              | 987                |
| Outpatient Visits                 | 1,724,176                   | 1,664,152          | 1,592,483          |
| Emergency Visits                  | 130,680                     | 125,327            | 117,977            |
| Observation Patients              | 15,088                      | 12,635             | 11,548             |
| Surgeries                         | 41,852                      | 40,951             | 38,381             |

In 2016, the Health System continued with the Medical Center mission of "improving people's lives through innovation in research, education and patient care" and remained financially sound due to solid activity levels and strong expense management. Inpatient admissions increased 2.0% compared with prior year. Outpatient visits increased 3.6% and total observation patients increased 19.4% over the previous year. Outpatient visits experienced significant growth at the James Cancer Hospital specific to surgical, radiation oncology, and chemotherapy. This growth in outpatient services is consistent with the industry trend of more care delivered in the outpatient setting. The Health System will continue its ambulatory expansion strategy and meeting the needs of the community with the Upper Arlington outpatient facility in Kingsdale and The Jameson Crane Sports Medicine Institute set to open in fiscal 2017.

The Health System continued to experience strong volumes in cancer, cardiac surgery, transplant, orthopedic surgery, neurology and neurosurgery, and hospital medicine which contributed to increases in admissions, revenues, and outpatient volumes. Contributing to the strong volumes, the Health System received approval from Centers for Medicare and Medicaid Services (CMS) to perform lung transplants in fiscal 2016 which has enhanced an already strong transplant program.

In fiscal 2015, The Ohio State University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. A proportionate share of the University's net pension liabilities have been allocated to the Health System based on retirement plan contributions for Health System employees. The cumulative effect of adopting GASB 68 was a \$502.2 million reduction in the Health System's net position as of July 1, 2014. The liabilities to be recognized under GASB 68 do not represent legal claims on the Health System's resources and there are no cash flows related to the recognition of GASB 68 liabilities, deferrals and expense. Further, it is anticipated that GASB 68 pension expense will not be allowable/allocable on federal grants, will not be recoverable under purchased service agreements and will not be a deductible expense for corporate (Form 990T) tax reporting for the university. The impact of GASB 68 to the Health System's net position for 2016 was total pension expense of \$63.0 million.

Income before other changes in Net Position was \$248.6 million in 2016 versus \$330.1 million in 2015. The decrease in Income before other changes in Net Position from 2015 to 2016 is due to \$63.0 million of pension expense related to GASB 68. Income before other changes in Net Position for clinical activities was \$312.3 million in 2016 versus \$319.8 million in 2015 reflecting strong activities, a strong patient mix and maintaining expenses in line with activities throughout the Health System.

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|   | Fiscal Year June 30,  |                   |                   |
|---|-----------------------|-------------------|-------------------|
|   | 2016                  | 2015              | 2014              |
| <b>Summary of</b>   | <b>(in thousands)</b> |                   |                   |
| <b><u>Income Before Other Changes in Net Position</u></b> |                       |                   |                   |
| Clinical Activities                                       | \$ 312,288            | \$ 319,758        | \$ 227,752        |
| Development pledges and gifts                             | (679)                 | 375               | 1,347             |
| GASB 68 pension expense                                   | (63,005)              | 10,001            | -                 |
| Income Before Other Changes in Net Position               | <b>\$ 248,604</b>     | <b>\$ 330,134</b> | <b>\$ 229,099</b> |

Changes to Net Position include Medical Center Investments of \$125.3 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of \$136.9 million in 2015 and \$120.5 million in 2014. Additionally, Changes to Net Position include \$3.2 million of capital contributions. 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. The final \$2.0 million of the total grant was recognized under capital contributions as a change in Net Position in 2016, \$20.9 million in 2015, and \$23.3 million in 2014. Additionally, changes to net position include other restricted expendable funds and pledges in support of the tower and other initiatives in the amount of \$0.8 million in 2016, \$1.6 million in 2015, and \$9.3 million in 2014. In total, after accounting for these changes and the impact of the Health System's operating results, the Health System's Net Position increased \$126.3 million in 2016, \$215.8 million in 2015 and 141.6 million in 2014.

**Using the Financial Statements**

The Health System's financial report includes three 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 deferred outflows and liabilities and deferred inflows. The difference between total assets and deferred outflows and total liabilities and deferred inflows – 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. Included in deferred outflows and deferred inflows in 2016 and 2015 is the impact of the recognition of GASB 68. The Statements of Net Position at June 30, 2016, 2015, and 2014 are summarized as follows:

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|   | <u>2016</u>           | <u>2015</u>         | <u>2014</u>         |
|---|-----------------------|---------------------|---------------------|
|   | <u>(in thousands)</u> |                     |                     |
| Current assets  | \$ 947,254            | \$ 715,622          | \$ 553,968          |
| Noncurrent assets                                     |                       |                     |                     |
| Assets whose use is limited                           | 255,498               | 255,029             | 284,044             |
| Capital assets, net                                   | 1,370,708             | 1,420,127           | 1,294,311           |
| Other   | 47,326                | 35,606              | 36,554              |
| Deferred outflows-pension                             | 292,219               | 74,024              | -                   |
| Total assets and deferred outflows                    | <u>2,913,005</u>      | <u>2,500,408</u>    | <u>2,168,877</u>    |
| Other current liabilities                             | 220,094               | 163,179             | 129,154             |
| Current portion of long-term debt                     | 46,744                | 47,646              | 44,273              |
| Total current liabilities                             | <u>266,838</u>        | <u>210,825</u>      | <u>173,427</u>      |
| Noncurrent liabilities                                |                       |                     |                     |
| Long-term debt  | 793,762               | 839,232             | 840,551             |
| Net pension liability                                 | 829,337               | 554,513             | -                   |
| Other noncurrent liabilities                          | 99,335                | 104,749             | 89,111              |
| Deferred inflows-pension                              | 18,069                | 11,693              | -                   |
| Total liabilities and deferred inflows                | <u>2,007,341</u>      | <u>1,721,012</u>    | <u>1,103,089</u>    |
| Net position  | <u>905,664</u>        | <u>779,396</u>      | <u>1,065,788</u>    |
| Total liabilities, deferred inflows, and net position | <u>\$ 2,913,005</u>   | <u>\$ 2,500,408</u> | <u>\$ 2,168,877</u> |

**Current Assets and Current Liabilities**

|  | <u>2016</u>           | <u>2015</u>       | <u>2014</u>       |
|--|-----------------------|-------------------|-------------------|
|  | <u>(in thousands)</u> |                   |                   |
| <b><u>Current Assets</u></b>             |                       |                   |                   |
| Cash and cash equivalents                | \$ 550,007            | \$ 343,381        | \$ 241,130        |
| Patient accounts receivable, net         | 324,460               | 299,338           | 262,548           |
| Inventories, Prepaids, Other Receivables | 72,787                | 72,903            | 50,290            |
| <b>Total Current Assets</b>              | <b>\$ 947,254</b>     | <b>\$ 715,622</b> | <b>\$ 553,968</b> |

Cash and cash equivalents on deposit with the University represents the Health System's cash, which is pooled with cash from other operating units within the University. These funds earn interest income at rates established through the University's internal bank program. The increase in cash balances from 2014 to 2016 is a result of operating performance, increased volumes related to the opening of the new James Cancer Hospital, strong expense management, and an increased insured population related to healthcare reform as well as Medicaid expansion.

Patient accounts receivable, net represents amounts due from third party payors and patients after allowances for discounts and bad debts. As of the end of the 2016 fiscal year, patient accounts receivable net increased \$25.1 million from 2015, reflecting increases in outpatient activities. As of the end of the 2015 fiscal year, patient accounts receivable, net increased \$36.8 million from 2014 as a result of the

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increased activity from the opening of the new James Cancer Hospital, an increase in outpatient activity described above and an increased insured population related to healthcare reform and Medicaid expansion.

Inventories include medical supply, pharmaceutical, and information technology inventory. Prepaids include preventative maintenance contracts on equipment and software. Additionally, other receivables represent amounts due from nonpatient activity, reference labs, and other revenue from Nationwide Children's Hospital management of the Neonatal Intensive Care Unit (NICU). As of the end of the 2016 fiscal year, inventories, prepaids, and other receivables totaled \$72.8 million. This compares to \$72.9 million in 2015 and \$50.3 million in 2014. The change in inventories, prepaids, and other receivables from 2014 to 2016 reflect increases in other receivables from Nationwide Children's Hospital management of the NICU as well as increases in Retail Pharmacy receivables.

|                                       | <u>2016</u>           | <u>2015</u>       | <u>2014</u>       |
|---------------------------------------|-----------------------|-------------------|-------------------|
|                                       | <u>(in thousands)</u> |                   |                   |
| <b><u>Current Liabilities</u></b>     |                       |                   |                   |
| Accounts payable and accrued expenses | \$ 138,585            | \$ 114,576        | \$ 97,967         |
| Accrued salaries & benefits           | 47,796                | 39,960            | 31,187            |
| Compensated absences                  | 5,230                 | -                 | -                 |
| Current portion of long-term debt     | 46,744                | 47,646            | 44,273            |
| Third-party payor settlements         | 28,483                | 8,643             | -                 |
| <b>Total Current Liabilities</b>      | <b>\$ 266,838</b>     | <b>\$ 210,825</b> | <b>\$ 173,427</b> |

Accounts payable and accrued expenses increased \$24.0 million from 2015 to 2016 due increases in accounts payable for medical supplies and services and increases in accounts payable for renovations and equipment related to facilities construction costs attributable to The Jameson Crane Sports Medicine Institute and the Brain and Spine Hospital set to open in fiscal 2017. Accounts payable and accrued expenses increased \$16.6 million from 2014 to 2015 due to changes in purchasing contracts and lengthened vendor payment terms. Accrued Salaries and Benefits increased from 2014 to 2016 and is reflective of increased salaries and a larger workforce. The addition of compensated absences in 2016 is reflective of the reclassification of the current year vacation payouts to the current liabilities section of the balance sheet.

**Assets Whose Use is Limited**

|   | <u>2016</u>           | <u>2015</u>       | <u>2014</u>       |
|---|-----------------------|-------------------|-------------------|
|   | <u>(in thousands)</u> |                   |                   |
| <b><u>Assets whose use is limited</u></b> |                       |                   |                   |
| Construction funds held for MCE           | \$ -                  | \$ -              | \$ 88,887         |
| Funds held for capital replacement        | 87,467                | 86,998            | 86,619            |
| 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                  | 120,000               | 120,000           | 60,507            |
| <b>Total Assets Limited as to Use</b>     | <b>\$ 255,498</b>     | <b>\$ 255,029</b> | <b>\$ 284,044</b> |

Assets whose use is limited is comprised of funds set aside for capital projects and long-term investments. Construction funds held for Medical Center Expansion (MCE) were funds set aside for the Medical Center Expansion project. These funds represented unspent debt proceeds assigned from The Ohio State University to the Health System. The decrease in Construction funds held for MCE from 2014 to 2016 represent the Health System's full use of debt proceeds for MCE. Additionally, the growth in Funds held

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by University from 2014 to 2016 represent increases in reserves set aside for capital projects, investments for research, education, and programs at the Medical Center.

**Capital Assets, Medical Center Expansion, and Long Term Debt**

|                                | <u>2016</u>           | <u>2015</u>         | <u>2014</u>         |
|--------------------------------|-----------------------|---------------------|---------------------|
|                                | <u>(in thousands)</u> |                     |                     |
| <b>Capital Assets - Net</b>    |                       |                     |                     |
| Property, Plant, and Equipment | \$ 2,309,870          | \$ 2,246,534        | \$ 1,202,477        |
| Construction In Progress       | 47,769                | 26,081              | 868,765             |
| Accumulated Depreciation       | (986,931)             | (852,488)           | (776,931)           |
| <b>Capital Assets - Net</b>    | <b>\$ 1,370,708</b>   | <b>\$ 1,420,127</b> | <b>\$ 1,294,311</b> |

The growth in property, plant, and equipment from 2015 to 2016 is due primarily from the capitalization of medical equipment, information technology equipment, and facilities renovations. The increase in construction in progress from 2015 to 2016 includes The Jameson Crane Sports Medicine Institute set to open in fiscal 2017. The increase in accumulated depreciation from 2015 to 2016 reflects the first full year of depreciation expense for MCE.

MCE construction was completed and capitalized in December 2014. MCE includes a new tower with 306 inpatient beds, 14 operating rooms, 6 interventional radiology suites, and 7 linear accelerators for radiation therapy. The hospital has capacity for an additional 72 beds for future growth.

In addition to the new tower, components of MCE included the 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 was \$1.1 billion, with major components as follows:

| <u>Medical Center Expansion</u>             | <u>Cost</u>           |
|---|-----------------------|
|   | <u>(in thousands)</u> |
| 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                |
| <b>Total Costs</b>                          | <b>\$ 1,100,000</b>   |

MCE was largely financed through University issued general receipt bonds which are allocated in part to the Health System through Memorandums of Understanding (MOUs). The Health System borrowed an additional \$47.7 million for MCE in 2015. The 2013 MOUs included a provision to borrow \$38.0 million in fiscal year 2015 for 18 years at an interest rate of 4.75%. Additionally, the Health System was allocated \$9.7 million in fiscal 2015 for 17 years at an interest rate of 4.75%.

During 2015, the Health System collaborated with the City of New Albany, Healthy New Albany, and Integrated Wellness Partners (IWP) to create a health and wellness ecosystem in New Albany, Ohio. The Health System borrowed \$1.2 million for design and build out costs to be repaid in twenty-eight quarterly installments at an interest rate of 4.38%.

A total of \$87.3 million of principal and interest was incurred in 2016, \$89.0 million in 2015, and \$86.5 million in 2014 for bonds and other financings. Total principal and interest incurred on bonds related to MCE totaled \$66.1 million in 2016, \$66.1 million in 2015, and \$61.5 million in 2014.

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Additionally, in December of 2010, the Health System was awarded a \$100 million grant from The Health Resources and Services Administration (HRSA), an Agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Through June 2016, the entire \$100 million grant has been funded in support of tower construction.

**Other Noncurrent Assets and Noncurrent Liabilities**

|   | <u>2016</u>           | <u>2015</u>      | <u>2014</u>      |
|---|-----------------------|------------------|------------------|
|   | <u>(in thousands)</u> |                  |                  |
| <b><u>Noncurrent Assets</u></b>                   |                       |                  |                  |
| Investment in subsidiaries                        | \$ 12,901             | \$ 11,803        | \$ 12,851        |
| Long term pledges receivable, net                 | 7,290                 | 9,882            | 11,918           |
| Long term receivables and other noncurrent assets | 27,135                | 13,921           | 11,785           |
| <b>Total Noncurrent Assets</b>                    | <b>\$ 47,326</b>      | <b>\$ 35,606</b> | <b>\$ 36,554</b> |

The Health System has investment interests in a community based air ambulance/intensive care transport and in a joint venture with partial ownership in a community hospital. The change in investment balance reflects the Health System's equity interest in these investments. Included in long term receivables and other noncurrent assets is prepaid rent of \$22.6 million paid to Medstone related to the construction and development of the Upper Arlington outpatient facility in Kingsdale set to open in fiscal 2017. Long term receivables and other noncurrent assets also include endowment assets of \$4.4 million in 2016, \$4.7 million in 2015, and \$4.7 million in 2014. Additionally, the Health System has recorded \$4.0 million in 2015 and \$6.5 million in 2014 in Long term receivables and other noncurrent assets due from OSUP to cover OSUP's share of the system's IHIS implementation and operating costs. There is no long term receivable recorded in 2016 for OSUP's share of the system's IHIS implementation as the arrangement is in its final year of the contract.

|                                      | <u>2016</u>           | <u>2015</u>       | <u>2014</u>      |
|--------------------------------------|-----------------------|-------------------|------------------|
|                                      | <u>(in thousands)</u> |                   |                  |
| <b><u>Noncurrent Liabilities</u></b> |                       |                   |                  |
| Third-party payor settlements        | \$ 42,745             | \$ 44,168         | \$ 28,197        |
| Compensated absences                 | 53,480                | 57,411            | 56,118           |
| Net pension liability                | 829,337               | 554,513           | -                |
| Other noncurrent liabilities         | 3,110                 | 3,170             | 4,796            |
| <b>Total Noncurrent Liabilities</b>  | <b>\$ 928,672</b>     | <b>\$ 659,262</b> | <b>\$ 89,111</b> |

Third-party payor settlements consists of future settlements of current and previous years Medicare and Medicaid cost reports. The change in third-party payor settlements in from 2014 to 2016 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. The addition of net pension liability in 2015 is related to the recognition of GASB 68. The Health System participates in a cost-sharing multiple-employer plan with the University and is required to recognize a proportionate share of the collective net pension liabilities of the plans. The increase in net pension liability from 2015 to 2016 is due to decreases in actual returns compared to projected returns of the OPERS pension plans as well as an overall increase in the Health System's proportionate share of OPERS and STRS liabilities due to the increase in size of the Health System's workforce growing faster than the University. 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 decrease in compensated absences from 2015 to 2016 is reflective of the reclassification

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of the current year vacation payouts to the current liabilities section of the balance sheet. The increase in compensated absences from 2014 to 2015 is reflective of increased salaries and a larger workforce.

**Net Position**

Net Position represents the residual interest in the Health System's assets and deferred outflows after liabilities and deferred inflows are deducted. The composition of the Health System's Net Position at June 30, 2016, 2015 and 2014 is summarized as follows:

|   | <u>2016</u>           | <u>2015</u>       | <u>2014</u>         |
|---|-----------------------|-------------------|---------------------|
|   | <u>(in thousands)</u> |                   |                     |
| <b>Net Position</b>                             |                       |                   |                     |
| Invested in capital assets, net of related debt | 530,202               | 533,249           | 409,487             |
| Restricted, nonexpendable                       | 4,448                 | 4,704             | 3,434               |
| Restricted, expendable                          | 22,018                | 26,849            | 47,730              |
| Unrestricted                                    | 348,996               | 214,594           | 605,137             |
| <b>Net Position</b>                             | <b>\$ 905,664</b>     | <b>\$ 779,396</b> | <b>\$ 1,065,788</b> |

Net investment in capital assets, net of related debt are the Health System's capital assets net of accumulated depreciation and outstanding principal balances of debt obtained for acquiring, constructing, and improving those assets. Net Position is further categorized into Restricted-Nonexpendable, Restricted-Expendable, and Unrestricted. Please see the Notes to the Financial Statements for further definition. Net position increased \$126.3 million from 2015 to 2016 and is the result of strong clinical operations and growth in operating cash. Net position decreased \$286.4 million from 2014 to 2015 due to the cumulative effect of adjusting beginning net position related to the impact of GASB 68 and the recognition of net pension liabilities for the Health System.

**Statement of Revenues, Expenses, and Changes 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 changes in net position for the years ended June 30, 2016, 2015, and 2014 is as follows:

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MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

|   | Fiscal Year June 30, |                              |                     |
|---|----------------------|------------------------------|---------------------|
|   | 2016                 | 2015                         | 2014                |
| <b><u>Income and Change in Net Position</u></b> |                      | <b><u>(in thousands)</u></b> |                     |
| Operating Revenues                              | \$ 2,628,273         | \$ 2,368,395                 | \$ 2,130,784        |
| Operating Expenses                              | 2,332,187            | 2,010,195                    | 1,896,336           |
| Operating Income                                | <u>296,086</u>       | <u>358,200</u>               | <u>234,448</u>      |
| Non-Operating Expenses                          | <u>(47,482)</u>      | <u>(28,066)</u>              | <u>(5,349)</u>      |
| Income Before Other Changes in Net Position     | 248,604              | 330,134                      | 229,099             |
| Medical Center investments                      | \$ (125,272)         | \$ (136,888)                 | \$ (120,526)        |
| Capital contributions                           | 3,192                | 22,538                       | 32,569              |
| Additions to permanent endowments               | (256)                | 7                            | 429                 |
| Other Changes in Net Position                   | <u>(122,336)</u>     | <u>(114,343)</u>             | <u>(87,528)</u>     |
| Increase in Net Position                        | \$ 126,268           | \$ 215,791                   | \$ 141,571          |
| Net Position - Beginning of Year, as reported   | 779,396              | 1,065,788                    | 924,217             |
| Effect of restatement of beginning net position | -                    | (502,183)                    | -                   |
| Net Position - End of Year                      | <u>\$ 905,664</u>    | <u>\$ 779,396</u>            | <u>\$ 1,065,788</u> |

**Operating Revenues**

Total operating revenues grew \$259.9 million, or 11.0% from the prior year. The increases in operating revenues are a result of the additional volumes related to Medical Center Expansion and the new James Cancer Hospital being open for the entire fiscal year and strong revenues related to the Retail Pharmacy. Total operating revenues grew \$237.6 million, or 11.2% from 2014 to 2015. The increases from 2014 to 2015 is a result of increased volume related to the opening of the new James Cancer Hospital, an increase in the insured population and reduced self-pay, and Medicaid expansion.

Approximately 94% 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. To ensure appropriate access and education for outpatients, the Health System opened the Retail Pharmacy due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. The Retail Pharmacy contributed \$70.3 million of operating revenues in 2016 and \$32.7 million in 2015. To standardize care across the Neonatal Intensive Care Units in central Ohio, the Health System shares other revenue from Nationwide Children's Hospital management of the unit. The Neonatal Intensive Care Units contributed \$18.8 million of operating revenues in 2016 and \$14.7 million in 2015.

|  | Fiscal Year June 30, |                              |                     |
|--|----------------------|------------------------------|---------------------|
|  | 2016                 | 2015                         | 2014                |
| <b><u>Revenues</u></b>                                   |                      | <b><u>(in thousands)</u></b> |                     |
| Net patient service revenue less provision for bad debts | \$ 2,471,249         | \$ 2,264,139                 | \$ 2,067,963        |
| Other Operating Revenues                                 | 157,024              | 104,256                      | 62,821              |
| Total Operating Revenue                                  | <u>\$ 2,628,273</u>  | <u>\$ 2,368,395</u>          | <u>\$ 2,130,784</u> |



## **THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

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 constituents; 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. Centers for Medicare and Medicaid Services (CMS) completed a special audit of these hospitals and retroactively updated the cost limitations for fiscal years after 2006. Medicare pays The James on prospectively determined outpatient rates, subject to additional cost limits.

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2016. 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 and are recorded in net patient service revenue.

Subject to income and asset levels, Medicaid pays for care under its Programs for Children, Families, and Pregnant Women; Aged Blind and Disabled program; and premium assistance for Medicare program. As with Medicare, Medicaid pays for inpatient and outpatient services on prospectively determined case rates, with provisions 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 based upon an Ohio Department of Medicaid percent of charges determined basis with no cost report settlement.

Effective January 1, 2014, new regulations under the Patient Protection and Affordable Care Act allowed states to extend coverage to additional eligible enrollees. Medicaid expansion is part of an effort to get health insurance coverage for Ohio's working poor. The Health System has seen an increased insured population and a shift from Self Pay to Medicaid as well as a significant decrease in bad debt and charity care as a result of Medicaid expansion.

Contracts with Managed Care organizations are negotiated and include different payment methods. Many of the contracts are case based or per diem for inpatients, with a combination of case rates and percent of charges for outpatients. Managed Care organizations may also offer plans to Medicare and Medicaid beneficiaries. These plans typically pay negotiated rates, but usually on a basis consistent with traditional Medicare or Medicaid plans. The State of Ohio mandates that patients eligible for Programs for Children, Families, and Pregnant Women enroll in a Medicaid managed care plan. Patients eligible under the Aged, Blind and Disabled program were mandated to enroll in a Medicaid managed care plan starting July 1, 2013.

The Health System also has contractual relationships with other payors. It provides much of the acute care needs for The Ohio Department of Corrections, has relationships with various Bureau of Workers Comp managed care payors, and other state and federal agencies. Effective July 1, 2013, corrections/inmates under 21 or over 64 years are covered under Medicaid. Previously, the Health System was reimbursed directly through the Ohio Department of Corrections. Also on July 1, 2013, any pregnant inmate is covered by Medicaid for inpatient or outpatient services. The rest of the inmate population shifted to Medicaid for health coverage on January 1, 2014.

The Health System provides care to patients without insurance. It participates in Ohio's Hospital Care Assurance Program which provides for free care to patients whose income levels are below 100% of the

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Federal Poverty Level (FPL) Guidelines. The Health System also provides sliding scale charity discounts for self pay patients up to 400% of the FPL.

Payor mix for the Health System has remained relatively consistent throughout the past several years. As discussed above, the increase in Medicaid and decrease in Self Pay and Other is due to healthcare reform and Medicaid expansion. The payor mix for the 2016, 2015 and 2014 fiscal years are as follows:

| <b>Payor Mix</b>   | <b>Fiscal Year June 30,</b> |             |             |
|--------------------|-----------------------------|-------------|-------------|
|                    | <b>2016</b>                 | <b>2015</b> | <b>2014</b> |
| Managed Care       | 38.5%                       | 38.7%       | 38.8%       |
| Medicaid           | 21.5%                       | 21.9%       | 19.2%       |
| Medicare           | 37.0%                       | 36.4%       | 35.9%       |
| Self Pay and Other | 3.0%                        | 3.0%        | 6.1%        |
|                    | 100.0%                      | 100.0%      | 100.0%      |

**Operating Expenses**

A comparison of operating expenses for the three years ended June 30, 2016, 2015, and 2014 is summarized as follows:

|                                 | <b>Fiscal Year June 30,</b> |                     |                     |
|---------------------------------|-----------------------------|---------------------|---------------------|
|                                 | <b>2016</b>                 | <b>2015</b>         | <b>2014</b>         |
|                                 | <b>(in thousands)</b>       |                     |                     |
| <b>Expenses</b>                 |                             |                     |                     |
| Salaries and benefits           | \$ 1,143,747                | \$ 1,052,084        | \$ 1,025,295        |
| Supplies and drugs              | 579,689                     | 474,105             | 411,962             |
| Purchased services              | 304,166                     | 282,041             | 285,130             |
| Depreciation                    | 140,323                     | 112,982             | 77,133              |
| Pension (benefit)               | 63,005                      | (10,001)            | -                   |
| Other expenses                  | 101,257                     | 98,984              | 96,816              |
| <b>Total Operating Expenses</b> | <b>\$ 2,332,187</b>         | <b>\$ 2,010,195</b> | <b>\$ 1,896,336</b> |

Operating expenses increased \$322.0 million, or 16.0% from 2015 to 2016. The increase in salaries and benefits from 2015 to 2016 is reflective of increased salaries and a larger workforce due to the additional volumes related to the new James Cancer Hospital. Increased chemotherapy sessions and strong Retail Pharmacy volumes contributed to the increase in supplies and drugs. The increase in depreciation expense from 2014 to 2016 is primarily due to the first full fiscal year of MCE. The increase in pension expense is related to the decrease in actual returns compared to projected returns of the OPERS pension plans as well as an overall increase in the Health System's proportionate shares of OPERS and STRS liabilities.

Operating expenses increased \$113.9 million, or 6.0% from 2014 to 2015 reflecting the opening of the new James Cancer Hospital and increased cost of drugs for the Retail Pharmacy. Supplies experienced minimal increases due to solid expense management and purchasing initiatives. The increase in depreciation is related to the capitalization of MCE and the new James Cancer Hospital. The addition of pension (benefit) is related to the recognition of GASB 68 in fiscal 2015.

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 5.6% from 2015 to 2016. The Health System employed 12,100 full time equivalent employees in 2016, 11,300 in 2015, and 11,000 in 2014.

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MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

**Non-Operating Revenue and Expenses**

The Health System incurred a total of \$41.6 million in interest cost in 2016, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. The Health System incurred a total of \$42.9 million interest cost in both 2015 and 2014, respectively, with the majority paid to the University to service debt incurred on behalf of the Health System. Of these amounts, \$28.9 million and \$9.4 million were recognized as period expense in each respective year.

**Income Before Other Changes in Net Position**

The Health System's Income before changes in Net Position for fiscal year 2016 totaled \$248.6 million compared to \$330.1 million in 2015 and \$229.1 million in 2014. The decrease in Income before other changes in Net Position from 2015 to 2016 is due to \$63.0 million of pension expense related to GASB 68. Income before other changes in Net Position for clinical activities was \$312.3 million in 2016 versus \$319.8 million in 2015 reflecting strong activities, a strong patient mix and maintaining expenses in line with activities throughout the Health System.

**Other Changes in Net Position**

The Health System's other changes in net position for fiscal year 2016 includes Medical Center Investments of \$125.3 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of \$136.9 million in 2015 and \$120.5 million in 2014. Additionally, other changes in net position for fiscal year 2016 includes recognition of the final \$2.0 million related to HRSA under capital contributions in support of MCE. This compares to \$20.9 million in 2015 and \$23.3 million in 2014 in recognition of HRSA in support of MCE.

**Statement of Cash Flows**

The Statement of Cash Flows provides additional information about the Health System's major sources and uses of cash. A comparison of cash flows for the three years ended June 30, 2016, 2015, and 2014 is summarized as follows:

|  | <u>2016</u>           | <u>2015</u>       | <u>2014</u>       |
|--|-----------------------|-------------------|-------------------|
|  | <u>(in thousands)</u> |                   |                   |
| <b><u>Cash flows</u></b>                         |                       |                   |                   |
| Receipts from patients and third-party payors    | \$ 2,476,595          | \$ 2,249,100      | \$ 2,051,747      |
| Payments to and on behalf of employees           | (1,186,877)           | (1,091,098)       | (1,069,520)       |
| Payments to vendors for supplies and services    | (853,994)             | (726,402)         | (685,988)         |
| Other operating activities                       | 66,411                | 29,341            | 5,965             |
| Net cash provided by operating activities        | <u>502,135</u>        | <u>460,941</u>    | <u>302,204</u>    |
| Cash flows from non capital financing activities | 730                   | 1,891             | 2,032             |
| Cash flows from capital financing activities     | (170,967)             | (164,192)         | (130,610)         |
| Cash flows from investing activities             | (125,272)             | (196,389)         | (120,461)         |
| Net increase in cash                             | <u>206,626</u>        | <u>102,251</u>    | <u>53,165</u>     |
| Cash at beginning of year                        | \$ 343,381            | \$ 241,130        | \$ 187,965        |
| Cash at end of year                              | <u>\$ 550,007</u>     | <u>\$ 343,381</u> | <u>\$ 241,130</u> |

Net cash provided by operating activities totaled \$502.1 million in 2016, an increase of \$41.2 million compared to 2015. The Health System had strong collections on accounts receivable and had solid results from operations. Net cash used in capital financing activities totaled \$171.0 million in 2016, an increase of

## THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

\$6.8 million compared to 2015 as a result of purchases of Health System capital assets and the payment of debt obligations. Net cash used in investing activities totaled \$125.3 million related to the reinvestment of funds into the Medical Center for research, education, and programs at the Medical Center.

### **Future Direction**

Improving people's lives through innovation in research, education and patient care and continuing to be one of America's top academic medical centers is the mission of the OSU Wexner Medical Center Health System. The Health System will continue to respond to the challenges and opportunities of healthcare reform, which expanded health insurance coverage through Medicaid expansion and creating health exchanges that offer affordable health insurance options. We are witnessing a transformation toward a value-based healthcare system that will require us to continue to provide high quality care with superior outcomes. We have aggressively implemented cutting edge information technology strategies and continue to enhance tertiary care delivery across a broader geographic area.

The Health System's ambulatory network continues to expand significantly in the community and will be opening a new outpatient facility in Upper Arlington as well as the addition of The Jameson Crane Sports Medicine Institute. The OSU Wexner Medical Center will be opening the new The Brain and Spine Hospital, which will be part of the Neurological Institute and will provide advanced clinical services and innovative research to improve the diagnosis, treatment and cure of neurological diseases. The new Brain and Spine Hospital will meet the growing need for services for patients with neurological disorders, including Alzheimer's disease, Parkinson's disease, multiple sclerosis, spinal cord injury, traumatic brain injury, stroke and many others.

The Health System continues to effectively control and reduce costs of supplies through standardization and strategic sourcing. Cost control will be the most significant challenge facing healthcare and the Health System has established the foundation for effective use of resources. As a responsible, future-focused organization, the Health System will continue to be proactive in responding to all challenges and opportunities of the healthcare environment and expects to build upon its strong financial position and operating results during the upcoming year. The Health System will continue to play a key role in the overall mission of being a leading academic medical center.

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

|  | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents on deposit with the University   | \$ 550,007           | \$ 343,381           |
| Patient accounts receivable, net of estimated uncollectibles of<br>\$87,133 in 2016 and \$73,310 in 2015 | 324,460              | 299,338              |
| Pledge receivables, net  | 1,439                | 2,262                |
| Other receivables  | 38,299               | 44,223               |
| Inventory  | 24,846               | 22,503               |
| Prepaid expenses and other current assets  | 8,203                | 3,915                |
| Total current assets   | <u>947,254</u>       | <u>715,622</u>       |
| Assets whose use is limited  | 255,498              | 255,029              |
| Investment in subsidiaries   | 12,901               | 11,803               |
| Capital assets, net  | 1,370,708            | 1,420,127            |
| Long term pledge receivables, net  | 7,290                | 9,882                |
| Long term receivables and other noncurrent assets  | 27,135               | 13,921               |
| Total noncurrent assets  | <u>1,673,532</u>     | <u>1,710,762</u>     |
| Deferred outflows-pension  | 292,219              | 74,024               |
| Total assets and deferred outflows   | <u>\$ 2,913,005</u>  | <u>\$ 2,500,408</u>  |
| <b>Liabilities</b>   |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable and accrued expenses  | \$ 138,585           | \$ 114,576           |
| Accrued salaries and benefits  | 47,796               | 39,960               |
| Compensated absences   | 5,230                | -                    |
| Third-party payor settlements  | 28,483               | 8,643                |
| Current portion of long-term debt  | 46,744               | 47,646               |
| Total current liabilities  | <u>266,838</u>       | <u>210,825</u>       |
| Long-term debt less current portion  | 793,762              | 839,232              |
| Compensated absences less current portion  | 53,480               | 57,411               |
| Third-party payor settlements less current portion   | 42,745               | 44,168               |
| Net pension liability  | 829,337              | 554,513              |
| Other noncurrent liabilities   | 3,110                | 3,170                |
| Total noncurrent liabilities   | <u>1,722,434</u>     | <u>1,498,494</u>     |
| Deferred inflows-pension   | 18,069               | 11,693               |
| Total liabilities and deferred inflows   | <u>2,007,341</u>     | <u>1,721,012</u>     |
| <b>Net Position</b>  |                      |                      |
| Net investment in capital assets   | 530,202              | 533,249              |
| Restricted:  |                      |                      |
| Nonexpendable  | 4,448                | 4,704                |
| Expendable   | 22,018               | 26,849               |
| Unrestricted   | 348,996              | 214,594              |
| Total net position   | <u>905,664</u>       | <u>779,396</u>       |
| Total liabilities, deferred inflows, and net position  | <u>\$ 2,913,005</u>  | <u>\$ 2,500,408</u>  |

**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)

|  | <u>Year Ended<br/>June 30, 2016</u> | <u>Year Ended<br/>June 30, 2015</u> |
|--|-------------------------------------|-------------------------------------|
| <b>Operating Revenues</b>                                |                                     |                                     |
| Net patient service revenue                              | \$ 2,527,135                        | \$ 2,397,665                        |
| Provision for bad debts                                  | (55,886)                            | (133,526)                           |
| Net patient service revenue less provision for bad debts | <u>2,471,249</u>                    | <u>2,264,139</u>                    |
| Other revenue  | 157,024                             | 104,256                             |
| <b>Total Operating Revenue</b>                           | <u>2,628,273</u>                    | <u>2,368,395</u>                    |
| <b>Operating Expenses</b>                                |                                     |                                     |
| Salaries and benefits                                    | 1,143,747                           | 1,052,084                           |
| Supplies and drugs                                       | 579,689                             | 474,105                             |
| Purchased services                                       | 304,166                             | 282,041                             |
| Depreciation   | 140,323                             | 112,982                             |
| Pension (benefit)  | 63,005                              | (10,001)                            |
| Other expenses   | 101,257                             | 98,984                              |
| <b>Total Expenses</b>                                    | <u>2,332,187</u>                    | <u>2,010,195</u>                    |
| <b>Operating Income</b>                                  | 296,086                             | 358,200                             |
| <b>Non-Operating Revenues (Expenses)</b>                 |                                     |                                     |
| Interest expense   | (41,582)                            | (28,856)                            |
| Income from investments                                  | 2,578                               | 1,869                               |
| Gifts  | (679)                               | 375                                 |
| Other non-operating (expenses) revenues                  | (7,799)                             | (1,454)                             |
| <b>Total Non-Operating Expenses</b>                      | <u>(47,482)</u>                     | <u>(28,066)</u>                     |
| <b>Income Before Other Changes in Net Position</b>       | 248,604                             | 330,134                             |
| <b>Other Changes in Net Position</b>                     |                                     |                                     |
| Medical Center investments                               | (125,272)                           | (136,888)                           |
| Capital contributions                                    | 3,192                               | 22,538                              |
| Additions to permanent endowments                        | (256)                               | 7                                   |
| <b>Total Other Changes in Net Position</b>               | <u>(122,336)</u>                    | <u>(114,343)</u>                    |
| <b>Increase in Net Position</b>                          | 126,268                             | 215,791                             |
| <b>Net Position - Beginning of Year, as reported</b>     | 779,396                             | 1,065,788                           |
| <b>Effect of restatement of beginning net position</b>   | -                                   | (502,183)                           |
| <b>Net Position - End of Year</b>                        | <u>\$ 905,664</u>                   | <u>\$ 779,396</u>                   |

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)

|  | <u>Year Ended<br/>June 30, 2016</u> | <u>Year Ended<br/>June 30, 2015</u> |
|--|-------------------------------------|-------------------------------------|
| <b>Cash flows from operating activities</b>  |                                     |                                     |
| Receipts from patients and third-party payors  | \$ 2,476,595                        | \$ 2,249,100                        |
| Other receipts   | 132,996                             | 91,508                              |
| Payments to and on behalf of employees   | (1,186,877)                         | (1,091,098)                         |
| Payments to vendors for supplies and services  | (853,994)                           | (726,402)                           |
| Payments on other expenses   | (66,585)                            | (62,167)                            |
| Net cash provided by operating activities  | <u>502,135</u>                      | <u>460,941</u>                      |
| <b>Cash flows from non-capital financing activities</b>                                |                                     |                                     |
| Gift receipts for current use  | 986                                 | 1,884                               |
| Additions (Reductions) to permanent endowments   | (256)                               | 7                                   |
| Net cash provided by non-capital financing activities                                  | <u>730</u>                          | <u>1,891</u>                        |
| <b>Cash flows from capital financing activities</b>                                    |                                     |                                     |
| Purchase of capital assets   | (86,792)                            | (79,035)                            |
| Repayments of long-term debt and capital lease obligations                             | (46,525)                            | (46,078)                            |
| Cash paid for interest   | (40,791)                            | (42,887)                            |
| Contributions for property acquisitions  | 3,141                               | 3,808                               |
| Net cash used in capital financing activities  | <u>(170,967)</u>                    | <u>(164,192)</u>                    |
| <b>Cash flows from investing activities</b>  |                                     |                                     |
| Medical Center investments   | (125,272)                           | (136,888)                           |
| Deposit into assets whose use is limited   | -                                   | (59,494)                            |
| Purchase of long term investments  | -                                   | (7)                                 |
| Net cash used in investing activities  | <u>(125,272)</u>                    | <u>(196,389)</u>                    |
| Net increase in cash and cash equivalents  | 206,626                             | 102,251                             |
| Cash and cash equivalents at beginning of year   | 343,381                             | 241,130                             |
| Cash and cash equivalents at end of year   | <u>\$ 550,007</u>                   | <u>\$ 343,381</u>                   |
| <b>Reconciliation of operating income to net cash provided in operating activities</b> |                                     |                                     |
| Operating Income   | 296,086                             | 358,200                             |
| Adjustments to reconcile operating income to net cash provided by operations:          |                                     |                                     |
| Pension (benefit)  | 63,005                              | (10,001)                            |
| Depreciation   | 140,323                             | 112,982                             |
| <b>Changes in operating assets and liabilities:</b>                                    |                                     |                                     |
| Patient accounts receivable  | (25,122)                            | (36,790)                            |
| Other receivables  | (6,239)                             | (23,242)                            |
| Inventories  | (2,343)                             | (1,138)                             |
| Prepaid expenses and other assets  | (4,289)                             | (1,281)                             |
| Accounts payable/accrued expenses  | 13,223                              | 29,158                              |
| Accrued salaries and benefits  | 7,836                               | 8,774                               |
| Third party payor settlements  | 18,417                              | 24,614                              |
| Compensated absences   | 1,299                               | 1,292                               |
| Other liabilities  | (60)                                | (1,626)                             |
| <b>Net cash provided (used) by operating activities</b>                                | <u>502,135</u>                      | <u>460,941</u>                      |

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

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

**NOTE 1 – ORGANIZATION**

The Ohio State University Wexner Medical Center Health System (the "Health System" or the "System") operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of departments representing the financial activities of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and the Ambulatory Primary Care Network. As a series of departments of The Ohio State University (the "University"), the System is included in the 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 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 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.

**Reclassification:**

Certain prior year amounts have been reclassified to conform with the current year presentation.

**New Accounting Pronouncements:**

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 (FY2016)—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

In June 2015, the GASB issued Statements No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statements 74 and 75 establish new accounting and reporting standards for other postemployment benefits (OPEB), such as health insurance provided to retirees. Under the new standards, governments that participate in OPEB plans will be required to report in their statement of net position a net



**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

OPEB liability, which is the difference between the total OPEB liability and the assets set aside to pay OPEB. Statement 74, which applies to plans (such as OPERS and STRS-Ohio), is effective for periods beginning after June 15, 2016 (FY2017). Statement 75, which applies to plan participants (including the university), is effective for periods beginning after June 15, 2017 (FY2018).

In December 2015, the GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This standard amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The standard is effective for financial statements for fiscal years beginning after December 15, 2015 (FY2017).

In March 2016, the GASB issued Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. This standard addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017). Early adoption of GASB issued Statement No. 82 is permitted.

Health System management has elected to early-implement Statement 82 in FY2016 and is currently assessing the impact that implementation of GASB Statements 73, 74, 75, and 78 will have on the Health System's financial statements.

**Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions regarding the reported amounts. The most significant areas requiring estimates relate to accounts receivable allowances for contractual adjustments and bad debts, third-party payor settlement liabilities, 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 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 the financial statements.

**Net Position:**

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

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

Expendable – Net position whose use by the Health System is subject to externally-imposed stipulations that can be fulfilled by actions of the Health System pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net position that is not subject to externally-imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

**Cash and Cash Equivalents on Deposit with the University:**

Cash and cash equivalents of \$550,007 at June 30, 2016 and \$343,381 at June 30, 2015 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 from governmental payors: 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 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 (MS-DRGs). 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 Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) basis, subject to certain reasonable cost 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 Solid Organ Transplant costs are reimbursed outside of MS-DRGs 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.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
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**(in thousands)**

Medicaid:

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge based upon All Patient Refined (APR-DRGs). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. This is applicable for every business unit except the Arthur G. James Cancer Hospital and Richard J. Solove Research. Outpatient services are paid prospectively on pre-determined fee schedules except the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute. Inpatient capital costs are paid based on an Ohio Department of Medicaid published hospital specific rate. Effective July 1, 2014, there is no longer a cost report settlement, although the reports continue to be required.

The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute is reimbursed for inpatient and outpatient beneficiary care at Ohio Department of Medicaid published rates with final cost settlement via cost reports thru September 30, 2014. Thereafter, there is no cost settlement. The submission of annual cost reports by the Health System, and audits thereof, by Medicaid, determine any settlement amounts. Effective January 1, 2014, new regulations under the Patient Protection and Affordable Care Act allow states to extend coverage to additional eligible enrollees. Medicaid expansion continues to be an effort to secure health insurance coverage for Ohio's working poor.

Other:

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

Settlements:

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2016. 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, 2010 and June 30, 2008 for Medicaid. The most recent settled cost report for the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute for Medicare was fiscal year ended June 30, 2013 and June 30, 2008 for Medicaid.

**Contributions and Pledges Receivable:**

The University receives pledges and bequests of financial support from corporations, foundations and individuals, including amounts relating to the capital expansion and patient care activities of the Health System. Contributions and pledges receivable are recorded in the Health System's financial statements. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. Property contributions received in fiscal years 2016 and 2015 totaled \$244 and \$402 respectively and are recorded in capital contributions within Other Changes in Net Position. The \$244 in 2016 and \$402 in 2015 represents additional pledges and gifts in support of research, education, programs, and strategic initiatives at the Medical Center.

Pledges receivable are reported net of allowance for uncollectable pledges. As estimated by management, the allowance for uncollectable pledges totaled \$1,386 at June 30, 2016 and \$1,576 at June 30, 2015. 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.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(in thousands)**

**Inventories:**

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

**Assets Whose Use is Limited:**

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

These funds are invested in The Ohio State University investment. 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, 2016 and 2015:

|                                       | <u>2016</u>           | <u>2015</u>       |
|---------------------------------------|-----------------------|-------------------|
|                                       | <u>(in thousands)</u> |                   |
| Funds held for capital replacement    | 87,467                | 86,998            |
| Funds held for debt retirement        | 28,031                | 28,031            |
| Funds held for research initiatives   | 20,000                | 20,000            |
| Funds held by University              | 120,000               | 120,000           |
| <b>Total Assets Limited as to Use</b> | <b>\$ 255,498</b>     | <b>\$ 255,029</b> |

**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 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 \$4,448 and \$4,704 at June 30, 2016 and 2015, respectively.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

**Investments in Subsidiaries:**

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

**Capital Assets:**

Capital asset acquisitions are recorded at cost or at acquisition 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. The Health System has experienced an increased insured population and a reduction in bad debts related to healthcare reform and Medicaid expansion. Net patient service revenue for the years ended June 30, 2016 and 2015 are summarized as follows:

|  | <b>2016</b>                | <b>2015</b>                |
|--|----------------------------|----------------------------|
| Total patient service revenue              | \$ 7,866,981               | \$ 7,218,822               |
| Contractual allowances and other discounts | (5,339,846)                | (4,821,157)                |
| Provision for bad debts                    | (55,886)                   | (133,526)                  |
| Net patient service revenue                | <b><u>\$ 2,471,249</u></b> | <b><u>\$ 2,264,139</u></b> |

Additionally, net patient service revenue amounts recognized from major payor sources (based on primary payor) for fiscal 2016 and 2015, respectively, is as follows:

|   | <b>Third Party</b>  | <b>Self-Pay</b>  | <b>Total All Payors</b> |
|---|---------------------|------------------|-------------------------|
| <b>2016</b>   |                     |                  |                         |
| Patient service revenue (net of contractual allowances and other discounts) | <u>\$ 2,490,232</u> | <u>\$ 36,903</u> | <u>\$ 2,527,135</u>     |
| <b>2015</b>   |                     |                  |                         |
| Patient service revenue (net of contractual allowances and other discounts) | <u>\$ 2,365,133</u> | <u>\$ 32,532</u> | <u>\$ 2,397,665</u>     |

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

**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 increase in the net cost of charity care from 2015 to 2016 is related to the distribution of HCAP dollars received subject to the Omnibus Reconciliation Act (OBRA) cap. The distribution of HCAP dollars are subject to an OBRA cap which is calculated from the Medicaid cost report composed of 1) Loss on indigent patients < 100% of the published federal poverty guidelines, 2) Loss on Medicaid Traditional as well as Medicaid Managed Care, 3) Upper Payment Limits (UPL) receipts and Medicaid Managed Care Incentive offset the Medicaid loss in the OBRA cap calculation. The Health System's OBRA Cap has been significantly impacted by Medicaid Expansion as well as increases in payments from the UPL and Managed Care Incentive programs and as a result now receives less from the formula than is paid through the assessment. The cost of providing charity for the fiscal years 2016 and 2015 are as follows:

|   | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| Total cost of charity care                      | \$ 23,640        | \$ 25,632        |
| Health Care Assurance Program expense (benefit) | 12,380           | (12,993)         |
| Net cost of charity care                        | <b>\$ 36,020</b> | <b>\$ 12,639</b> |

**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, 2016 and 2015 is summarized as follows:

|                               | <b>2016</b>          |           |                               |                   |
|-------------------------------|----------------------|-----------|-------------------------------|-------------------|
|                               | Beginning<br>Balance | Additions | Retirements<br>and Reductions | Ending<br>Balance |
| Land and Improvements         | \$ 151,121           | 126       | 455                           | \$ 150,792        |
| Buildings                     | 994,714              | 10,235    | -                             | 1,004,949         |
| Leasehold Improvements        | 28,513               | 330       | -                             | 28,843            |
| Equipment - fixed             | 496,447              | 14,638    | -                             | 511,085           |
| Equipment - moveable          | 575,739              | 44,732    | 6,270                         | 614,201           |
| Construction in progress      | 26,081               | 91,858    | 70,170                        | 47,769            |
|                               | 2,272,615            | 161,919   | 76,895                        | 2,357,639         |
| Less accumulated depreciation | 852,488              | 140,279   | 5,836                         | 986,931           |
| Capital assets, net           | \$ 1,420,127         | \$ 21,640 | \$ 71,059                     | \$ 1,370,708      |

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

Capital assets placed in service in 2016 were \$70,061. The balance of capital assets placed in service is due primarily from the capitalization of medical equipment, information technology equipment, and facility renovations.

|                               | <b>2015</b>          |                     |                               |                     |
|-------------------------------|----------------------|---------------------|-------------------------------|---------------------|
|                               | Beginning<br>Balance | Additions           | Retirements<br>and Reductions | Ending<br>Balance   |
| Land and Improvements         | \$ 25,092            | \$ 126,233          | \$ 204                        | \$ 151,121          |
| Buildings                     | 438,071              | 556,856             | 213                           | 994,714             |
| Leasehold Improvements        | 26,641               | 1,872               | -                             | 28,513              |
| Equipment - fixed             | 244,572              | 251,890             | 15                            | 496,447             |
| Equipment - moveable          | 468,101              | 145,574             | 37,936                        | 575,739             |
| Construction in progress      | 868,765              | 239,796             | 1,082,480                     | 26,081              |
|                               | <u>2,071,242</u>     | <u>1,322,221</u>    | <u>1,120,848</u>              | <u>2,272,615</u>    |
| Less accumulated depreciation | 776,931              | 112,982             | 37,425                        | 852,488             |
| Capital assets, net           | <u>\$ 1,294,311</u>  | <u>\$ 1,209,239</u> | <u>\$ 1,083,423</u>           | <u>\$ 1,420,127</u> |

Capital assets placed in service in 2015 were \$1,082,480. The balance of capital assets placed in service is due primarily from the capitalization of MCE including \$98,769 of interest. Of the total \$1,322,221 additions in fiscal year 2015, the Health System directly expended \$58,642.

**NOTE 4 – LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2016 is summarized as follows:

|  | <b>2016</b>          |                    |                   |                   |
|--|----------------------|--------------------|-------------------|-------------------|
|  | Beginning<br>Balance | Additions          | Reductions        | Ending<br>Balance |
| <b>University Bonds:</b>               |                      |                    |                   |                   |
| 2015, 4.75% through 2031               | \$ 8,456             | \$ -               | \$ 378            | \$ 8,078          |
| 2013, 4.75% through 2032               | 425,154              | -                  | 16,663            | 408,491           |
| 2010, 4.95% through 2031               | 290,385              | -                  | 12,981            | 277,404           |
| 2008, 3.83%-4.03% through 2029         | 61,112               | -                  | 3,479             | 57,633            |
| 2005, 3.83%-4.03% through 2026         | 52,770               | -                  | 4,276             | 48,494            |
| 2003, 4.32%-4.57% through 2024         | 28,820               | -                  | 3,900             | 24,920            |
| 1999, 5.14% through 2030               | 5,746                | -                  | 319               | 5,427             |
| <b>Other Financing:</b>                | -                    |                    |                   |                   |
| Mgmt Svc , 4.38% through 2022          | 1,200                | -                  | -                 | 1,200             |
| 2013, 4.50% through 2021               | 4,097                | -                  | 695               | 3,402             |
| 2012, 2.25%-4.00% through 2021         | 2,407                | -                  | 1,127             | 1,280             |
| 2010, 3.65%-5.84% through 2021         | 6,731                | -                  | 2,553             | 4,178             |
| <b>Total Long Term Obligations</b>     | <b>886,878</b>       | <b>-</b>           | <b>46,372</b>     | <b>840,506</b>    |
| Less Current Portion of Long-Term Debt | 47,646               | 46,744             | 47,646            | 46,744            |
| <b>Net Long Term Debt</b>              | <b>\$ 839,232</b>    | <b>\$ (46,744)</b> | <b>\$ (1,274)</b> | <b>\$ 793,762</b> |

The Health System received no additions to debt in 2016 related to University Bonds or Other Financings.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

Long-term debt activity for the year ended June 30, 2015 is summarized as follows:

|  | <b>2015</b>          |                 |                 |                   |
|--|----------------------|-----------------|-----------------|-------------------|
|  | Beginning<br>Balance | Additions       | Reductions      | Ending<br>Balance |
| <b>University Bonds:</b>               |                      |                 |                 |                   |
| 2015, 4.75% through 2031               | \$ -                 | \$ 9,693        | \$ 1,237        | \$ 8,456          |
| 2013, 4.75% through 2032               | 403,003              | 38,042          | 15,891          | 425,154           |
| 2010, 4.95% through 2030               | 302,740              | -               | 12,355          | 290,385           |
| 2008, 3.83%-4.03% through 2029         | 64,454               | -               | 3,342           | 61,112            |
| 2005, 3.83%-4.03% through 2026         | 56,876               | -               | 4,106           | 52,770            |
| 2003, 4.32%-4.57% through 2024         | 32,552               | -               | 3,732           | 28,820            |
| 1999, 5.14% through 2030               | 6,057                | -               | 311             | 5,746             |
| <b>Other Financing:</b>                |                      |                 |                 |                   |
| Mgmt Svc , 4.38% through 2022          | -                    | 1,200           | -               | 1,200             |
| 2013, 4.50% through 2021               | 4,761                | -               | 664             | 4,097             |
| 2012, 2.25%-4.00% through 2019         | 3,508                | -               | 1,101           | 2,407             |
| 2010, 3.65%-5.84% through 2021         | 10,873               | -               | 4,142           | 6,731             |
| <b>Total Long Term Obligations</b>     | <b>884,824</b>       | <b>48,935</b>   | <b>46,881</b>   | <b>886,878</b>    |
| Less Current Portion of Long-Term Debt | 44,273               | 47,646          | 44,273          | 47,646            |
| <b>Net Long Term Debt</b>              | <b>\$ 840,551</b>    | <b>\$ 1,289</b> | <b>\$ 2,608</b> | <b>\$ 839,232</b> |

The \$48,935 additions to debt from the University in fiscal year 2015 were used to fund Medical Center Expansion construction in progress and the design and build out of the Healthy New Albany fitness operation. The Health System was allocated an additional \$9,693 in fiscal 2015 related to an original 2011 MOU for the three floor build out of the Biomedical Research Tower (BRT) for the College of Medicine. As a result of a favorable construction variance, an addendum MOU was agreed as effective in 2015 reallocating the remaining bonds to the Health System. The \$1,237 reductions to debt for the 2015 bonds were repayments made in 2015 to the College of Medicine for 2012-2015 principal and interest payments.

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. The acquisition of this debt has been for various hospital construction and renovation projects, and the funding of the Medical Center Expansion project. The Health System received no additions to debt in 2016 related to University Bonds. During fiscal year 2015, the Health System borrowed an additional \$47,735. The 2013 MOUs included a provision to borrow \$38,042 in fiscal year 2015 for 18 years at an interest rate of 4.75%. The Health System was allocated an additional \$9,693 in fiscal 2015 related to the 2011 BRT Build Out bonds for 17 years at an interest rate of 4.75% as a result of a favorable construction variance for the three floor build out of the Biomedical Research Tower.

#### Other Financing

The Health System received no additions to debt in 2016 related to Other Financings. During 2015, the Health System collaborated with the City of New Albany, Healthy New Albany, and Integrated Wellness Partners (IWP) to create a health and wellness ecosystem in New Albany, Ohio. The Health System



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borrowed \$1,200 for design and build out costs to be repaid in twenty-eight quarterly installments at an interest rate of 4.38%.

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

|           | Principal         | Interest          | Total               |
|-----------|-------------------|-------------------|---------------------|
| 2017      | \$ 47,131         | \$ 38,665         | \$ 85,795           |
| 2018      | 47,973            | 36,471            | 84,445              |
| 2019      | 48,998            | 34,208            | 83,206              |
| 2020      | 50,839            | 31,892            | 82,731              |
| 2121      | 52,050            | 29,483            | 81,533              |
| 2022-2026 | 279,291           | 108,934           | 388,225             |
| 2027-2031 | 278,648           | 40,999            | 319,648             |
| 2032      | 35,576            | 922               | 36,498              |
|           | <u>\$ 840,506</u> | <u>\$ 321,574</u> | <u>\$ 1,162,080</u> |

**NOTE 5 – OPERATING LEASES**

The Health System leases various buildings and office space under operating lease agreements. These facilities are not recorded as assets on the Statement of Net Position. Operating leases related to equipment are not significant. Total operating lease and rental expense for fiscal years 2016 and 2015 were \$19,319 and \$18,008, 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, 2016, that have initial or remaining lease terms in excess of one year:

|           |                  |
|-----------|------------------|
| 2017      | \$12,100         |
| 2018      | 11,638           |
| 2019      | 10,403           |
| 2020      | 9,543            |
| 2021      | 8,759            |
| 2022-2026 | 44,091           |
| 2027-2031 | 37,323           |
| 2032-2036 | 2,237            |
|           | <u>\$136,092</u> |

**NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY**

On July 1, 2003, the Health System joined with OSU Physicians (OSUP), a component unit of The Ohio State University, to establish a self-insurance fund for professional and patient general liability claims (Fund II), covering the hospitals as well as the employed physicians of OSUP. Previous to July 1, 2003, the Health System was self-insured through the University's established self-insurance fund for professional and general liability (Fund I). The assets and liabilities of both funds are included in the University's financial statements, but are not included in the Health System financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2016. The medical liability expense is recorded as period expenses for the Health System and totaled an expense of \$33 and a benefit of \$767 for fiscal year 2016 and fiscal year 2015, respectively.

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The University has also established a pure captive insurer (Oval Limited) that provides excess liability coverage over Fund I and Fund II. Both funds retain \$4,000 per occurrence with various annual aggregate limits. Effective July 1, 2015, Oval Limited provides coverage with limits of \$75,000 per occurrence and in the aggregate. A portion of the risk written to date is reinsured by a combination of four reinsurance companies each of which has a minimum rating of A (Berkeley Medical Excess Underwriters: A+, Lexington Insurance Company: A, Endurance Specialty Insurance Ltd: A, Medical Protective A++). Oval Limited retains 50% of the first \$15,000 of risk and cedes the remainder to Berkley Medical Excess Underwriters (rated A+ by AM Best).

Oval Limited assets and liabilities are included in the University's financial statements, but are not included in the Health System 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 \$2,372 in fiscal year 2016 and \$4,815 in fiscal year 2015.

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

**NOTE 7 - RETIREMENT PLANS**

Health System employees, as part of The Ohio State University, are covered by one of three retirement systems. The Health System 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.

STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. These plans are 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](http://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](http://www.opers.org/investments/cafr.shtml)

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized

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in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

The collective net pension liabilities of the retirement system's and the Health System's proportionate share of these net pension liabilities as of June 30, 2016 are as follows:

|   | <u>STRS-Ohio</u> |    | <u>OPERS</u> |    | <u>Total</u> |
|---|------------------|----|--------------|----|--------------|
| Net pension liability - all employers                   | \$ 27,637,075    | \$ | 17,272,216   |    |              |
| Proportion of the net pension liability - Health System | 0.023%           |    | 4.765%       |    |              |
| Proportionate share of net pension liability            | \$ 6,382         | \$ | 822,955      | \$ | 829,337      |

The collective net pension liabilities of the retirement system's and the Health System's proportionate share of these net pension liabilities as of June 30, 2015 are as follows:

|   | <u>STRS-Ohio</u> |    | <u>OPERS</u> |    | <u>Total</u> |
|---|------------------|----|--------------|----|--------------|
| Net pension liability - all employers                   | \$ 24,323,461    | \$ | 12,022,615   |    |              |
| Proportion of the net pension liability - Health System | 0.024%           |    | 4.564%       |    |              |
| Proportionate share of net pension liability            | \$ 5,783         | \$ | 548,730      | \$ | 554,513      |

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2016:

|  | <u>STRS-Ohio</u> |           | <u>OPERS</u>   |           | <u>Total</u>   |
|--|------------------|-----------|----------------|-----------|----------------|
| <b>Deferred Outflows of Resources:</b>   |                  |           |                |           |                |
| Differences between expected and actual experience                               | \$ 291           | \$        | 167            | \$        | 458            |
| Net difference between projected and actual earnings on pension plan investments | -                |           | 244,132        |           | 244,132        |
| Changes in proportion of university contributions                                | 4                |           | 710            |           | 714            |
| Employer contributions subsequent to the measurement date                        | 346              |           | 46,568         |           | 46,914         |
| <b>Total</b>   | <b>\$ 641</b>    | <b>\$</b> | <b>291,577</b> | <b>\$</b> | <b>292,218</b> |
| <b>Deferred Inflows of Resources:</b>  |                  |           |                |           |                |
| Differences between expected and actual experience                               | \$ -             | \$        | 17,589         | \$        | 17,589         |
| Net difference between projected and actual earnings on pension plan investments | 459              |           | -              |           | 459            |
| Changes in proportion of university contributions                                | \$ -             | \$        | 21             |           | 21             |
| <b>Total</b>   | <b>\$ 459</b>    | <b>\$</b> | <b>17,610</b>  | <b>\$</b> | <b>18,069</b>  |

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Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2015:

|  | STRS-Ohio     |           | OPERS         |           | Total         |
|--|---------------|-----------|---------------|-----------|---------------|
| <b>Deferred Outflows of Resources:</b>   |               |           |               |           |               |
| Differences between expected and actual experience                               | \$ 56         | \$        | -             | \$        | 56            |
| Net difference between projected and actual earnings on pension plan investments | -             |           | 29,627        |           | 29,627        |
| Employer contributions subsequent to the measurement date                        | 359           |           | 43,982        |           | 44,341        |
| <b>Total</b>   | <b>\$ 415</b> | <b>\$</b> | <b>73,609</b> | <b>\$</b> | <b>74,024</b> |

|  |                 |           |               |           |               |
|--|-----------------|-----------|---------------|-----------|---------------|
| <b>Deferred Inflows of Resources:</b>  |                 |           |               |           |               |
| Differences between expected and actual experience                               | \$ -            | \$        | 10,623        | \$        | 10,623        |
| Net difference between projected and actual earnings on pension plan investments | 1,070           |           | -             |           | 1,070         |
| <b>Total</b>   | <b>\$ 1,070</b> | <b>\$</b> | <b>10,623</b> | <b>\$</b> | <b>11,693</b> |

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

|                     | STRS-Ohio     |           | OPERS          |           | Total          |
|---------------------|---------------|-----------|----------------|-----------|----------------|
| 2017                | 244           |           | 100,194        |           | 100,438        |
| 2018                | (101)         |           | 57,428         |           | 57,327         |
| 2019                | (101)         |           | 61,964         |           | 61,863         |
| 2020                | 140           |           | 55,158         |           | 55,298         |
| 2021                | -             |           | (202)          |           | (202)          |
| 2022 and Thereafter | -             |           | (575)          |           | (575)          |
| <b>Total</b>        | <b>\$ 182</b> | <b>\$</b> | <b>273,967</b> | <b>\$</b> | <b>274,149</b> |

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The following table provides additional details on the pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement systems.

|                                   | <b>STRS-Ohio</b>   | <b>OPERS</b>  |
|-----------------------------------|--|---|
| <b>Statutory Authority</b>        | Ohio Revised Code Chapter 3307   | Ohio Revised Code Chapter 145   |
| <b>Benefit Formula</b>            | <p>The annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 and five years of service on August 1, 2026.</p> | <p>Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.</p> |
| <b>Cost-of-Living Adjustments</b> | <p>With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring Aug. 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit.</p>   | <p>Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.</p>   |
| <b>Contribution Rates</b>         | <p>Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2015, the employer rate was 14% and the member rate was 12% of covered payroll. The statutory employer rate for fiscal 2016 and subsequent years is 14%. The statutory member contribution rate increased to 13% on July 1, 2015 and will increase to 14% on July 1, 2016.</p>   | <p>Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2015, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).</p>   |

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|                                      | <b>STRS-Ohio</b>   | <b>OPERS</b>   |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
|--------------------------------------|--|--|--------------------------|-----------------------------------|-----------------|-------|-------|----------------------|-------|-------|--------------|-------|-------|--------------|-------|-------|-------------|-------|-------|--------------------|------|-------|--------------|-------------|--|--|--------------------|--------------------------|-----------------------------------|--------------|-------|-------|-----------------|-------|-------|-------------|-------|-------|----------------|-------|-------|----------------------|-------|-------|-------------------|-------|-------|--------------|---------------|--|
| <b>Measurement Date</b>              | June 30, 2015  | December 31, 2015  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Actuarial Assumptions</b>         | <b>Valuation Date:</b> July 1, 2015<br><b>Actuarial Cost Method:</b> Individual entry age<br><b>Investment Rate of Return:</b> 7.75%<br><b>Inflation:</b> 2.75%<br><b>Projected Salary Increases:</b> 2.75% - 12.25%<br><b>Cost-of-Living Adjustments:</b> 2.00% Simple  | <b>Valuation Date:</b> December 31, 2015<br><b>Actuarial Cost Method:</b> Individual entry age<br><b>Investment Rate of Return:</b> 8.00%<br><b>Inflation:</b> 3.75%<br><b>Projected Salary Increases:</b> 4.25% - 10.05%<br><b>Cost-of-Living Adjustments:</b> 3.00% Simple   |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Mortality Rates</b>               | RP-2000 Combined Mortality Table (Projection 2022–Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.  | RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used. |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Date of Last Experience Study</b> | July 1, 2012   | December 31, 2010  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Investment Return Assumptions</b> | <p>The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio’s investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and long-term expected real rate of return for each major asset class are summarized as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><b>Asset Class</b></th> <th style="text-align: center;"><b>Target Allocation</b></th> <th style="text-align: center;"><b>Long Term Expected Return*</b></th> </tr> </thead> <tbody> <tr> <td>Domestic Equity</td> <td style="text-align: center;">31.0%</td> <td style="text-align: center;">8.00%</td> </tr> <tr> <td>International Equity</td> <td style="text-align: center;">26.0%</td> <td style="text-align: center;">7.85%</td> </tr> <tr> <td>Alternatives</td> <td style="text-align: center;">14.0%</td> <td style="text-align: center;">8.00%</td> </tr> <tr> <td>Fixed Income</td> <td style="text-align: center;">18.0%</td> <td style="text-align: center;">3.75%</td> </tr> <tr> <td>Real Estate</td> <td style="text-align: center;">10.0%</td> <td style="text-align: center;">6.75%</td> </tr> <tr> <td>Liquidity Reserves</td> <td style="text-align: center;">1.0%</td> <td style="text-align: center;">3.00%</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>100%</b></td> <td></td> </tr> </tbody> </table> <p>* Returns presented as geometric means</p> | <b>Asset Class</b>   | <b>Target Allocation</b> | <b>Long Term Expected Return*</b> | Domestic Equity | 31.0% | 8.00% | International Equity | 26.0% | 7.85% | Alternatives | 14.0% | 8.00% | Fixed Income | 18.0% | 3.75% | Real Estate | 10.0% | 6.75% | Liquidity Reserves | 1.0% | 3.00% | <b>Total</b> | <b>100%</b> |  | <p>The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><b>Asset Class</b></th> <th style="text-align: center;"><b>Target Allocation</b></th> <th style="text-align: center;"><b>Long Term Expected Return*</b></th> </tr> </thead> <tbody> <tr> <td>Fixed Income</td> <td style="text-align: center;">23.0%</td> <td style="text-align: center;">2.31%</td> </tr> <tr> <td>Domestic Equity</td> <td style="text-align: center;">20.7%</td> <td style="text-align: center;">5.84%</td> </tr> <tr> <td>Real Estate</td> <td style="text-align: center;">10.0%</td> <td style="text-align: center;">4.25%</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: center;">10.0%</td> <td style="text-align: center;">9.25%</td> </tr> <tr> <td>International Equity</td> <td style="text-align: center;">18.3%</td> <td style="text-align: center;">7.40%</td> </tr> <tr> <td>Other Investments</td> <td style="text-align: center;">18.0%</td> <td style="text-align: center;">4.59%</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>100.0%</b></td> <td></td> </tr> </tbody> </table> <p>* Returns presented as arithmetic means</p> | <b>Asset Class</b> | <b>Target Allocation</b> | <b>Long Term Expected Return*</b> | Fixed Income | 23.0% | 2.31% | Domestic Equity | 20.7% | 5.84% | Real Estate | 10.0% | 4.25% | Private Equity | 10.0% | 9.25% | International Equity | 18.3% | 7.40% | Other Investments | 18.0% | 4.59% | <b>Total</b> | <b>100.0%</b> |  |
| <b>Asset Class</b>                   | <b>Target Allocation</b>   | <b>Long Term Expected Return*</b>  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Domestic Equity                      | 31.0%  | 8.00%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| International Equity                 | 26.0%  | 7.85%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Alternatives                         | 14.0%  | 8.00%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Fixed Income                         | 18.0%  | 3.75%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Real Estate                          | 10.0%  | 6.75%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Liquidity Reserves                   | 1.0%   | 3.00%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Total</b>                         | <b>100%</b>  |  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Asset Class</b>                   | <b>Target Allocation</b>   | <b>Long Term Expected Return*</b>  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Fixed Income                         | 23.0%  | 2.31%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Domestic Equity                      | 20.7%  | 5.84%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Real Estate                          | 10.0%  | 4.25%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Private Equity                       | 10.0%  | 9.25%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| International Equity                 | 18.3%  | 7.40%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| Other Investments                    | 18.0%  | 4.59%  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |
| <b>Total</b>                         | <b>100.0%</b>  |  |                          |                                   |                 |       |       |                      |       |       |              |       |       |              |       |       |             |       |       |                    |      |       |              |             |  |  |                    |                          |                                   |              |       |       |                 |       |       |             |       |       |                |       |       |                      |       |       |                   |       |       |              |               |  |

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

|   | <b>STRS-Ohio</b>   | <b>OPERS</b>  |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |
|---|--|---|-------------------------|------------------------|----------|----------|----------|---|------------------------|-------------------------|------------------------|--------------|------------|------------|
| <b>Discount Rate</b>  | The discount rate used to measure the total pension liability was 7.75% as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. | The discount rate used to measure the total pension liability was 8.0% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |
| <b>Sensitivity of Net Pension Liability to Changes in Discount Rate</b> | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease<br/>(6.75%)</th> <th style="text-align: center;">Current Rate<br/>(7.75%)</th> <th style="text-align: center;">1% Increase<br/>(8.75%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ 8,865</td> <td style="text-align: right;">\$ 6,382</td> <td style="text-align: right;">\$ 4,282</td> </tr> </tbody> </table>  | 1% Decrease<br>(6.75%)  | Current Rate<br>(7.75%) | 1% Increase<br>(8.75%) | \$ 8,865 | \$ 6,382 | \$ 4,282 | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease<br/>(7.00%)</th> <th style="text-align: center;">Current Rate<br/>(8.00%)</th> <th style="text-align: center;">1% Increase<br/>(9.00%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ 1,314,908</td> <td style="text-align: right;">\$ 822,955</td> <td style="text-align: right;">\$ 408,142</td> </tr> </tbody> </table> | 1% Decrease<br>(7.00%) | Current Rate<br>(8.00%) | 1% Increase<br>(9.00%) | \$ 1,314,908 | \$ 822,955 | \$ 408,142 |
| 1% Decrease<br>(6.75%)  | Current Rate<br>(7.75%)  | 1% Increase<br>(8.75%)  |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |
| \$ 8,865  | \$ 6,382   | \$ 4,282  |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |
| 1% Decrease<br>(7.00%)  | Current Rate<br>(8.00%)  | 1% Increase<br>(9.00%)  |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |
| \$ 1,314,908  | \$ 822,955   | \$ 408,142  |                         |                        |          |          |          |   |                        |                         |                        |              |            |            |

**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 9.5% 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.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

**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.

**Summary of Employer Pension Expense**

Total pension expense for the year ended June 30, 2016, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

|                        | STRS-Ohio      | OPERS             | ARP              | Total             |
|------------------------|----------------|-------------------|------------------|-------------------|
| Employer Contributions | \$ 221         | \$ 94,862         | \$ 10,252        | \$ 105,334        |
| GASB 68 Accruals       | (237)          | 63,242            |                  | 63,005            |
| Total Pension Expense  | <b>\$ (17)</b> | <b>\$ 158,104</b> | <b>\$ 10,252</b> | <b>\$ 168,340</b> |

Total pension expense for the year ended June 30, 2015, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

|                        | STRS-Ohio     | OPERS            | ARP             | Total            |
|------------------------|---------------|------------------|-----------------|------------------|
| Employer Contributions | \$ 310        | \$ 88,834        | \$ 9,154        | \$ 98,298        |
| GASB 68 Accruals       | (82)          | (9,919)          |                 | (10,001)         |
| Total Pension Expense  | <b>\$ 228</b> | <b>\$ 78,915</b> | <b>\$ 9,154</b> | <b>\$ 88,297</b> |

**Post-Retirement Health Care Benefits**

STRS Ohio currently provides access to health care coverage to retirees who participated in the defined benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2015, STRS Ohio made no allocation of employer contributions for post-employment health care.

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2015, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.



**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)

**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.

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, that 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.

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.

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

**NOTE 9 – OTHER NONCURRENT LIABILITIES**

Other noncurrent liability activity for the years ending June 30, 2016 and 2015 is summarized as follows:

|                               | <b>2016</b>         |               |               |                |
|-------------------------------|---------------------|---------------|---------------|----------------|
|                               | Beginnng<br>Balance | Additions     | Reductions    | Ending Balance |
| Compensated absences          | \$ 57,411           | \$ -          | \$ 3,931      | \$ 53,480      |
| Third party payor settlements | 44,168              | 58,726        | 60,149        | 42,745         |
| Other noncurrent liabilities  | 3,170               | 2,024         | 2,084         | 3,110          |
|                               | <u>104,749</u>      | <u>60,750</u> | <u>66,164</u> | <u>99,335</u>  |

  

|                               | <b>2015</b>         |               |               |                |
|-------------------------------|---------------------|---------------|---------------|----------------|
|                               | Beginnng<br>Balance | Additions     | Reductions    | Ending Balance |
| Compensated absences          | \$ 56,118           | \$ 5,691      | \$ 4,398      | \$ 57,411      |
| Third party payor settlements | 28,197              | 57,377        | 41,406        | 44,168         |
| Other noncurrent liabilities  | 4,796               | -             | 1,626         | 3,170          |
|                               | <u>89,111</u>       | <u>63,068</u> | <u>47,430</u> | <u>104,749</u> |

The decrease in compensated absences from 2015 to 2016 is reflective of the reclassification of the current year vacation payouts to the current liabilities section of the balance sheet. The decrease in third-party payor settlements in 2016 reflects updated calculations for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. The decrease in other

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

noncurrent liabilities from 2015 to 2016 reflects the recognition of unearned revenue arising from Avita Health System, Mercer Hospital, and OSU Physicians' rights to use the integrated medical record system.

**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, 2016 and 2015 is summarized as follows:

| <b>Payor - receivables</b> | <b>2016</b> | <b>2015</b> |
|----------------------------|-------------|-------------|
| Medicare                   | 24%         | 23%         |
| Medicaid                   | 16%         | 18%         |
| Managed Care               | 54%         | 53%         |
| Self Pay                   | 6%          | 6%          |
| <b>Total</b>               | <b>100%</b> | <b>100%</b> |

**NOTE 11 – RELATED PARTY TRANSACTIONS**

**The Ohio State University**

The Health System purchases employee benefits, utilities, mail services, and construction project management services from the University. Additionally, the Health System pays university overhead, which includes such services as payroll processing, public safety, auditing, and insurance. University overhead charged to the Health System is recorded in Other expenses and was \$48,996 and \$49,901 for the years ended June 30, 2016 and 2015, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected \$80,473 for healthcare services in 2016 and \$84,282 in 2015 and is reflected in Net patient service revenue.

**OSU Physicians**

The Health System leases 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 \$2,529 and \$3,046 in other receivables as of June 30, 2016 and 2015, respectively and \$4,036 in long term receivables as of June 30, 2015 from OSUP to cover OSUP's share of the system's implementation and operating costs. There is no long term receivable recorded in 2016 for OSUP's share of the system's IHIS implementation as the arrangement is in its final year of the contract.

OSUP provides patient account management and insurance 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. The Health System provides single patient billing services to OSUP for patient responsibility after insurance has paid.

**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 \$125,272 for fiscal year 2016 and \$136,888 for fiscal year 2015 and are reflected as Other Changes in Net Position.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

Oval

The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are included in the University's financial statements, but are not included in the Health System financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense and totaled \$2,372 for fiscal year 2016 and \$4,815 for fiscal year 2015. See NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

MedFlight

The Health System has an investment interest in a community based air ambulance/intensive care transport which is recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of \$9,266 for fiscal year 2016 and \$8,799 for fiscal year 2015.

OSU Mount Carmel Health Alliance

The Health System has a joint venture with Mount Carmel with partial ownership in Madison County Hospital which are recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of \$3,583 for fiscal year 2016 and \$2,920 for fiscal year 2015.

Medstone

In April 2016, the University (on behalf of the Health System) entered into a grant contract with Medstone Realty LLC, a subsidiary of Campus Partners. Under the agreement, the Health System provided a grant in the amount of \$8,850 to Medstone for the acquisition of the office building at 700 Ackerman Road. Medstone completed the purchase of the property (which included the building as well as the current lease agreements in place with tenants of the building) on June 24, 2016. The Health System has a call option to purchase the property from Campus Partners for \$1 within a 5 year period from the date of the acquisition. The Medical Center is entitled to receive quarterly distributions for any net income earned on the property.

In April 2015, the Health System made a \$5,000 grant to Medstone for the acquisition of land, architectural and other costs associated with the development of the Upper Arlington outpatient facility at Kingsdale. In October 2015, the Health System and Medstone entered into a 20-year lease agreement for the land and building. The Health System made prepaid rent payments to Medstone totaling \$17,572 to fund construction of the facility during fiscal 2016.

**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 OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**

The estimated Medicare and Medicaid cost report settlements recorded at June 30, 2016 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 13, 2016, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES  
(UNAUDITED)  
(in thousands)**

**Schedule of Proportionate Share of the Net Pension Liability**

|   | 2016      |            | 2015      |            |
|---|-----------|------------|-----------|------------|
|   | STRS-Ohio | OPERS      | STRS-Ohio | OPERS      |
| Health System proportion of the collective net pension liability                                      | 0.023%    | 4.765%     | 0.024%    | 4.564%     |
| Health System proportionate share of the net pension liability  | \$ 6,382  | \$ 822,955 | \$ 5,783  | \$ 548,730 |
| Health System covered payroll   | \$ 2,001  | \$ 654,922 | \$ 2,061  | \$ 616,496 |
| Health System proportionate share of the net pension liability as a percentage of its covered payroll | 319%      | 126%       | 281%      | 89%        |
| Plan fiduciary net position as a percentage of the total pension liability                            | 72.1%     | 81.2%      | 74.7%     | 86.5%      |

**Schedule of University Contributions**

|  |          |            |          |            |
|--|----------|------------|----------|------------|
| Contractually required contribution                                  | \$ 221   | \$ 94,862  | \$ 310   | \$ 88,834  |
| Contributions in relation to the contractually required contribution | \$ 221   | \$ 94,862  | \$ 310   | \$ 88,834  |
| Contribution deficiency (excess)                                     | \$ -     | \$ -       | \$ -     | \$ -       |
| Health System covered payroll  | \$ 1,417 | \$ 673,340 | \$ 2,001 | \$ 630,751 |
| Contributions as a percentage of covered payroll                     | 15.6%    | 14.1%      | 15.5%    | 14.1%      |



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

To the Board of Trustees of  
The Ohio State University

We have audited, 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 financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, appearing on pages 16 to 39, which consist of the statement of net position as of June 30, 2016 and the related statements 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 13, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 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 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*.



**Purpose of this Report**

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

*PricewaterhouseCoopers LLP*

Columbus, Ohio  
October 13, 2016

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# Dave Yost • Auditor of State

**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 20, 2016**