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, 2017 and 2016, 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 Trustees
The Ohio State University Wexner Medical Center Health System
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the *Report of Independent Auditors* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July, 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

November 29, 2017

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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 41, which consist of the statements of net position as of June 30, 2017 and June 30, 2016 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 as listed in the table of contents.

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, 2017 and June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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, 2017, 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 42 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 16, 2017 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, 2017. 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 16, 2017

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, 2017, 2016, and 2015. 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 ("the 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 7 hospitals and a network of ambulatory care locations. The Health System provides care across the spectrum from primary care to quaternary specialized care. Key clinical care locations and facilities at the Health System include:

- ***University Hospital*:** the Medical Center's full-service tertiary care facility that provides care to patients throughout the region.
- ***Arthur G. James Cancer Hospital and Solove Research Institute ("The James"):*** one of only 41 National Cancer Institute-designated Comprehensive Cancer Centers. In fiscal 2015, The James opened a new tower that fosters collaboration and integration of cancer research and clinical cancer care.
- ***Richard M. Ross Heart Hospital ("The Ross"):*** The Ross is home to OSU's Heart and Vascular program, ranked 26th out of nearly 5,000 hospitals around the country by US News and World Report.
- ***OSU Harding Hospital:*** provides the most comprehensive behavioral healthcare services in central Ohio.
- ***University Hospital East:*** a full service community hospital.
- ***Dodd Hall:*** a 60-bed inpatient rehabilitation facility.
- ***Brain and Spine Hospital:*** provides comprehensive neuroscience care to improve prevention, detection and treatment of brain and spine disorders.
- ***Ambulatory Services:*** a network of community-based primary and subspecialty care facilities.

The Health System provided services to approximately 61,700 adult inpatients and 1,764,000 outpatients during fiscal year 2017, 59,300 adult inpatients and 1,724,000 outpatients during fiscal year 2016, and 58,200 adult inpatients and 1,664,000 outpatients during fiscal year 2015.

The Health System operates over 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 25 consecutive years as one of "America's Best Hospitals" with seven nationally ranked specialties and is one of only a handful of hospitals in the country ranked in multiple specialties. The Wexner Medical Center was selected by Becker Hospital Review for its 2017 list of "100 Great Hospitals in America" for excellence in patient care, clinical research, and leadership in innovations. The Health System is proud to be the first health system in central Ohio to have a hospital achieve Magnet Recognition, one of the highest honors awarded for nursing excellence. The Ross Heart Hospital, University Hospital, and The James are all designated Magnet hospitals. The Health System works with a dedicated physician group that provides exceptional patient care. Physicians at the Wexner Medical Center were selected by Castle Connolly because they are among the very best in their specialties.

In fiscal 2017, the Health System continued its expansion strategy by opening Outpatient Care Upper Arlington, The Jameson Crane Sports Medicine Institute, and the Brain and Spine Hospital. The Outpatient Care Upper Arlington facility provides high quality and convenient health services from disease prevention and primary care to highly specialized women's health services and beyond. The Jameson Crane Sports Medicine Institute is the Midwest's largest and most advanced sports medicine facility and is the home of innovation and discovery in helping people improve their athletic performance, recover

from injury and prevent future injuries. The new state of the art complex integrates research, teaching, clinical care, and performance training in one location. The Brain and Spine Hospital is home to central Ohio's top-ranked Neurology and Neurosurgery program. The new Brain and Spine Hospital combines the talent and resources of doctors and researchers at the Wexner Medical Center's Neurological Institute in one comprehensive hospital. It includes specialized units for stroke care, neurotrauma, traumatic brain injuries, spinal cord injuries, spine surgery, epilepsy, chronic pain, acute rehabilitation, and neurosurgery.

The largest development project (Medical Center Expansion) in the history of The Ohio State University was completed in fiscal 2015. Included in Medical Center Expansion was the construction of the new Arthur G. James Cancer Hospital and Solove Research Institute. 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 of fiscal year 2015.

Operating and Financial Highlights

	Fiscal Year June 30,		
	2017	**2016**	**2015**
Selected Statistics			
Admissions	61,701	59,358	58,211
Avg. Daily Census	1,109	1,056	1,011
Outpatient Visits	1,763,707	1,724,176	1,664,152
Emergency Visits	131,439	130,680	125,327
Observation Patients	16,075	15,088	12,635
Surgeries	44,090	41,852	40,951

In 2017, the Health System continued with the Medical Center mission of "improving people's lives through innovation in research, education and patient care" and continued its financial excellence due to increased demand for our services and a continued focus on improving efficiency. Inpatient admissions increased 3.9% compared to the prior year while inpatient beds increased 4.1% compared to the prior year. Outpatient visits increased 2.3% and total observation patients increased 6.5% over the previous year. Outpatient visits experienced significant growth specific to Surgical, Radiation Oncology, Rehab Services, Radiology, and Chemotherapy. The Health System continued its ambulatory expansion strategy with the opening of the Upper Arlington outpatient facility and The Jameson Crane Sports Medicine Institute this year. These new locations along with continued growth in existing programs achieved growth of 20.7% over the prior year for Ambulatory Services.

The Health System experienced higher surgical volumes in 2017 which was 5.4% above the prior year. Service lines contributing to the growth in surgical volumes in 2017 were Cancer, Transplant, Orthopedic Surgery, Trauma/Critical Care, Burn, Ophthalmology, and Urology. The growth in surgical volumes contributed to increases in admissions, revenues, and outpatient volumes

In fiscal 2015, The Ohio State University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 requires governmental employers participating in defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. The Health System participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio. Under GASB 68, the Health System is required to record a liability for its proportionate share of the net pension liabilities of the retirement systems. The Health System's share of these net pension liabilities increased $280.7 million, to $1.1 billion at June 30, 2017. Total net pension liabilities increased at OPERS primarily due to a reduction in the discount rate used in the liability calculation (from 8.0% to 7.5%). Total net pension liabilities increased at STRS-Ohio primarily due to lower-than-projected investment returns. Net deferrals associated with pensions increased $112.5 million, to $386.7 million at June 30, 2017. These deferrals will be recognized as pension expense in future periods. Total pension expense recognized by the

Health System increased $112.5 million, to $280.8 million in 2017. Total pension expense includes $112.7 million of employer contributions and $168.1 million in GASB 68 accruals.

In Ohio, employer contributions to the state's cost-sharing multi-employer retirement systems are established by statute. These contributions, which are payable to the retirement systems one month in arrears, constitute the full legal claim on the Health system for pension funding. Although the liabilities recognized under GASB 68 meet the GASB's definition of a liability in its conceptual framework for accounting standards, they do not represent legal claims on the Health System's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals, and related expense.

Income Before Other Changes In Net Position was $215.0 million in 2017 compared to $248.6 million in 2016. Pension expense was $168.1 million in 2017 compared to $63.0 million in 2016 reflecting annual accounting under GASB 68. Income Before Other Changes In Net Position for clinical activities was $383.2 million in 2017 compared to $312.3 million in 2016 reflecting increased patient volume, a favorable patient mix, and good expense control throughout the Health System.

	Fiscal Year June 30,		
	2017	2016	2015
		(in thousands)	
Health System	$ 383,208	$ 312,288	$ 319,758
Development pledges and gifts	(25)	(679)	375
GASB 68 pension expense	(168,147)	(63,005)	10,001
Income Before Other Changes in Net Position	**$ 215,036**	**$ 248,604**	**$ 330,134**

Changes to Net Position include Medical Center Investments of $145.2 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $125.3 million in 2016 and $136.9 million in 2015. Additionally, changes to Net Position include $17.6 million of capital contributions for hospital projects. Changes to Net Position include other restricted expendable funds and pledges in support of the tower and other initiatives in the amount of $0.4 million in 2017, $0.8 million in 2016, and $1.6 million in 2015. After these changes, the Health System's Net Position increased $85.1 million in 2017, $126.3 million in 2016, and $215.8 million in 2015.

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 during the year. Included in deferred outflows and deferred inflows is the impact of the recognition of GASB 68. The Statements of Net Position at June 30, 2017, 2016, and 2015 are summarized as follows:

	2017	2016	2015
		(in thousands)	
Current assets	$ 1,021,993	$ 947,254	$ 715,622
Noncurrent assets			
Assets whose use is limited	135,816	255,498	255,029
Long-term investment pool	267,236	-	-
Capital assets, net	1,390,555	1,370,708	1,420,127
Other	32,772	47,326	35,606
Deferred outflows-pension	395,460	292,219	74,024
Total assets and deferred outflows	3,243,832	2,913,005	2,500,408
Other current liabilities	241,476	220,094	163,179
Current portion of long-term debt	49,059	46,744	47,646
Total current liabilities	290,535	266,838	210,825
Noncurrent liabilities			
Long-term debt	750,029	793,762	839,232
Net pension liability	1,110,007	829,337	554,513
Other noncurrent liabilities	93,741	99,335	104,749
Deferred inflows-pension	8,787	18,069	11,693
Total liabilities and deferred inflows	2,253,099	2,007,341	1,721,012
Net position	990,733	905,664	779,396
Total liabilities, deferred inflows, and net position	$ 3,243,832	$ 2,913,005	$ 2,500,408

Current Assets and Current Liabilities

	2017	2016	2015
		(in thousands)	
Current Assets			
Cash and cash equivalents	$ 553,394	$ 550,007	$ 343,381
Patient accounts receivable, net	375,530	324,460	299,338
Inventories, Prepaids, Other Receivables	93,069	72,787	72,903
Total Current Assets	**$ 1,021,993**	**$ 947,254**	**$ 715,622**

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 2015 to 2017 is a result of solid operating performance, increased volumes, 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 2017 fiscal year, patient accounts receivable net increased $51.1 million from 2016, reflecting increases in both inpatient and outpatient volumes. As of the end of the 2016 fiscal year, patient accounts receivable net increased $25.1 million from 2015, reflecting increases in outpatient activities.

Inventories include medical supply, pharmaceutical drugs, and information technology equipment. Prepaids include preventive maintenance contracts on medical and information technology equipment. 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 2017 fiscal year, inventories, prepaids, and other receivables totaled $93.1 million. This compares to $72.8 million in 2016 and $72.9 million in 2015. The change in inventories, prepaids, and other receivables from 2016 to 2017 reflect increases in amounts due from Nationwide Children's Hospital, increases in pharmaceutical inventory, and increases in prepaids related to preventive maintenance contracts.

	2017	2016	2015
		(in thousands)	
Current Liabilities			
Accounts payable and accrued expenses	$ 150,018	$ 138,585	$ 114,576
Accrued salaries & benefits	55,892	47,796	39,960
Compensated absences	7,072	5,230	-
Current portion of long-term debt	49,059	46,744	47,646
Third-party payor settlements	28,494	28,483	8,643
Total Current Liabilities	**$ 290,535**	**$ 266,838**	**$ 210,825**

Accounts payable and accrued expenses increased $11.4 million from 2016 to 2017 due to increases in accounts payable for medical supplies and services. Accounts payable and accrued expenses increased $24.0 million from 2015 to 2016 due to 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. Accrued Salaries and Benefits increased from 2015 to 2017 and is reflective of the growth in volumes and a larger workforce.

Assets Whose Use is Limited

	2017	2016	2015
		(in thousands)	
Assets whose use is limited			
Funds held for capital replacement	$ 87,785	$ 87,467	$ 86,998
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
Total assets whose use is limited	**$ 135,816**	**$ 255,498**	**$ 255,029**

Assets whose use is limited is comprised of funds set aside for future capital expansion projects and research initiatives that support clinical care and the academic mission of the Wexner Medical Center. In 2017, the Health System invested $120.0 million from assets whose use is limited to the University for investment in the University's Long-Term Investment Pool.

Long-Term Investment Pool

	2017	2016	2015
		(in thousands)	
Long-Term Investment Pool			
Long-term investment pool - Cost Value	$ 250,000	$ -	$ -
Unrealized Gain/(Loss)	17,236	-	-
Long-Term Investment Pool	**$ 267,236**	**$ -**	**$ -**

In fiscal year 2017, the Health System transferred $250.0 million to the University for investment in the University's Long-Term Investment Pool to support capital projects, research initiatives, clinical care, and the academic mission. The $250.0 million transfer to the University's Long-Term Investment Pool included $130.0 million of operating cash and $120.0 million of assets whose use is limited. The net increase or unrealized gain in the market value of investments during fiscal year 2017 was $17.2 million.

Capital Assets, Medical Center Expansion, and Long Term Debt

	2017	2016	2015
		(in thousands)	
Capital Assets - Net			
Property, Plant, and Equipment	$ 2,454,574	$ 2,309,870	$ 2,246,534
Construction In Progress	35,498	47,769	26,081
Accumulated Depreciation	(1,099,517)	(986,931)	(852,488)
Capital Assets - Net	**$ 1,390,555**	**$ 1,370,708**	**$ 1,420,127**

The growth in property, plant, and equipment from 2016 to 2017 is due primarily from the capitalization of the Brain and Spine Hospital, Jameson Crane Sports Medicine Institute, and Upper Arlington outpatient care as well as medical equipment, information technology equipment, and facilities renovations. The decrease in construction in progress from 2016 to 2017 is due to the Brain and Spine Hospital and the Jameson Crane Sports Medicine Institute opening this fiscal year and transitioning to assets placed in service. The increase in accumulated depreciation from 2015 to 2017 reflects depreciation expense related to Medical Center Expansion and medical and supply equipment.

Medical Center Expansion construction was completed and capitalized in December of fiscal year 2015. Medical Center Expansion included the new The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute tower with 306 inpatient beds, 14 operating rooms, 6 interventional radiology suites, and 7 linear accelerators for radiation therapy. The hospital has additional capacity for future growth. In total, the cost of the project was $1.1 billion, with major components as follows:

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

Other Noncurrent Assets and Noncurrent Liabilities

	2017	2016	2015
		(in thousands)	
Noncurrent Assets			
Investment in subsidiaries	$ 14,793	$ 12,901	$ 11,803
Long term pledges receivable, net	6,402	7,290	9,882
Long term receivables and other noncurrent assets	11,577	27,135	13,921
Total Noncurrent Assets	**32,772**	**47,326**	**35,606**

The Health System has an investment interest in MedFlight, a community based air ambulance/intensive care transport authority. Additionally, the Health System has an investment interest in a joint venture with partial ownership in Madison County Hospital, a community hospital. The change in investment balance reflects the Health System's equity interest in these investments. The decrease in long term receivables and other noncurrent assets from 2016 to 2017 is reflective of $22.6 million paid to Medstone related to the construction and development of the Upper Arlington outpatient facility. The Upper Arlington outpatient facility has been reclassified to Property, Plant, and Equipment and capitalized as an asset in 2017. Long term receivables and other noncurrent assets also include endowment assets of $5.0 million in 2017, $4.4 million in 2016, and $4.7 million in 2015.

	2017	2016	2015
		(in thousands)	
Noncurrent Liabilities			
Third-party payor settlements	$ 38,032	$ 42,745	$ 44,168
Compensated absences	54,884	53,480	57,411
Net pension liability	1,110,007	829,337	554,513
Other noncurrent liabilities	825	3,110	3,170
Total Noncurrent Liabilities	**$ 1,203,748**	**$ 928,672**	**$ 659,262**

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 from 2015 to 2017 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. 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. Net pension liability increased $280.7 million from 2016 to 2017. Net pension liability increased at OPERS primarily due to a reduction in the discount rate used in the liability calculation (from 8.0% to 7.5%). Total Net pension liability increased at STRS-Ohio primarily due to lower-than-projected investment returns. Compensated absences reflects the liability for earned but unused vacation and the potential payment of ill time upon an employee's termination or retirement. The increase in compensated absences from 2016 to 2017 is attributable to the increased volumes at the Health System and a larger workforce. 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.

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, 2017, 2016 and 2015 is summarized as follows:

	2017	2016	2015
		(in thousands)	
Net Position			
Net investment in capital assets	591,467	530,202	533,249
Restricted, nonexpendable	4,965	4,448	4,704
Restricted, expendable	19,161	22,018	26,849
Unrestricted	375,140	348,996	214,594
Net Position	**$ 990,733**	**$ 905,664**	**$ 779,396**

Net investment in capital assets 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 $211.3 million from 2015 to 2017 and is the result of increased volumes, strong clinical operations, and growth in operating cash.

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, 2017, 2016, and 2015 is as follows:

	Fiscal Year June 30,		
	2017	2016	2015
Income and Change in Net Position		(in thousands)	
Operating Revenues	$ 2,853,404	$ 2,628,273	$ 2,368,395
Operating Expenses	2,632,341	2,332,187	2,010,195
Operating Income	221,063	296,086	358,200
Non-Operating Expenses	(6,027)	(47,482)	(28,066)
Income Before Other Changes in Net Position	215,036	248,604	330,134
Medical Center investments	$ (145,210)	$ (125,272)	$ (136,888)
Capital contributions	14,726	3,192	22,538
Additions to permanent endowments	517	(256)	7
Other Changes in Net Position	(129,967)	(122,336)	(114,343)
Increase in Net Position	$ 85,069	$ 126,268	$ 215,791
Net Position - Beginning of Year, as reported	905,664	779,396	1,065,788
Effect of restatement of beginning net position	-	-	(502,183)
Net Position - End of Year	$ 990,733	$ 905,664	$ 779,396

Operating Revenues

Total operating revenues grew $225.1 million, or 8.6% from the prior year. The increases in operating revenues are a result of strong admissions, surgical volumes, and increased outpatient activities. Total operating revenues grew $259.9 million, or 11.0% from 2015 to 2016. The increases from 2015 to 2016

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 as well as additional revenues related to the Retail Pharmacy.

Approximately 93% of total operating revenues are from patient care activities. Other Operating Revenues are 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 in 2015 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 $92.5 million of operating revenues in 2017, $70.3 million in 2016, and $32.7 million in 2015. Other Operating Revenues also includes a portion of the margin shared with Nationwide Children's Hospital for the management of the Neonatal Intensive Care Unit located at the Heath System. The goal of this managed unit was to standardize the care and quality outcomes of all the neonatal patients in Central Ohio. The NICU contributed $16.4 million of operating revenues in 2017, $18.8 million in 2016, and $14.7 million in 2015.

	Fiscal Year June 30,		
	2017	**2016**	**2015**
		(in thousands)	
Revenues			
Net patient service revenue less provision for bad debts	$ 2,660,647	$ 2,471,249	$ 2,264,139
Other Operating Revenues	192,757	157,024	104,256
Total Operating Revenue	**$ 2,853,404**	**$ 2,628,273**	**$ 2,368,395**

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 within 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, 2017. 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 are mandated to enroll in a Medicaid managed care plan.

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

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

Payor Mix for the Health System has remained relatively consistent throughout the past several years. The Payor Mix for the 2017, 2016 and 2015 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2017**	**2016**	**2015**
Managed Care	37.3%	38.5%	38.7%
Medicaid	21.2%	21.5%	21.9%
Medicare	37.7%	37.0%	36.4%
Self Pay and Other	3.8%	3.0%	3.0%
	100.0%	100.0%	100.0%

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2017, 2016, and 2015 is summarized as follows:

	Fiscal Year June 30,		
	2017	2016	2015
		(in thousands)	
Expenses			
Salaries and benefits	$ 1,216,318	$ 1,143,747	$ 1,052,084
Supplies and drugs	662,866	579,689	474,105
Purchased services	345,236	304,166	282,041
Depreciation	143,137	140,323	112,982
Pension (benefit)	168,147	63,005	(10,001)
Other expenses	96,637	101,257	98,984
Total Operating Expenses	**$ 2,632,341**	**$ 2,332,187**	**$ 2,010,195**

Operating expenses increased $300.2 million, or 12.9% from 2016 to 2017. The increase in salaries and benefits from 2016 to 2017 is reflective of increased salaries and a larger workforce due to the additional volumes related to Brain and Spine Hospital, Jameson Crane Sports Medicine Institute, and Outpatient Care Upper Arlington as well as the continued growth at the James Cancer Hospital. Strong admissions, surgical volumes, and increased outpatient activities as well as higher Retail Pharmacy volumes contributed to the increase in supplies and drugs. The increase in purchased services from 2016 to 2017 is reflective of increased preventive maintenance costs for information technology and medical equipment as well as an increase in franchise fee for the hospitals. The increase in pension expense from 2016 to 2017 is related to the reduction in the discount rate used in the liability calculation and lower-than-projected investment returns.

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 2015 to 2016 is primarily due to the first full fiscal year of depreciation related to the new James Cancer Hospital and Medical Center Expansion. 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.

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 3.7% from 2016 to 2017. The Health System employed 12,800 full time equivalent employees (FTEs) in 2017, 12,100 in 2016, and 11,300 in 2015.

Non-Operating Revenue and Expenses

The Health System incurred a total of $40.0 million in interest cost in 2017, 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 $41.6 and $42.9 million interest cost in 2016 and 2015, respectively. In 2017, the Health System transferred $250.0 million to the University for investment in the University's Long-Term Investment Pool to support capital projects, research initiatives, clinical care, and the academic mission of the Medical Center. Income from Investments in 2017 includes $17.2 million unrealized gain and $4.8 million of interest income related to the Long-Term Investment Pool.

Income Before Other Changes in Net Position

Income Before Other Changes In Net Position was $215.0 million in 2017 compared to $248.6 million in 2016. Pension expense was $168.1 million in 2017 compared to $63 million in 2016 reflecting annual accounting under GASB 68. Income Before Other Changes in Net Position for clinical activities was $383.2 million in 2017 compared to $312.3 million in 2016. The increase in Income Before Other Changes in Net Position is due to 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 2017 includes Medical Center Investments of $145.2 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $125.3 million in 2016 and $136.9 million in 2015. Additionally, other changes in net position include $17.6 million for hospital projects in fiscal year 2017.

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, 2017, 2016, and 2015 is summarized as follows:

	2017	2016	2015
		(in thousands)	
Cash flows			
Receipts from patients and third-party payors	$ 2,603,242	$ 2,476,595	$ 2,249,100
Payments to and on behalf of employees	(1,252,615)	(1,186,877)	(1,091,098)
Payments to vendors for supplies and services	(952,740)	(853,994)	(726,402)
Other operating activities	105,106	66,411	29,341
Net cash provided by operating activities	502,993	502,135	460,941
Cash flows from non-capital financing activities	1,680	730	1,891
Cash flows from capital financing activities	(226,076)	(170,967)	(164,192)
Cash flows from investing activities	(275,210)	(125,272)	(196,389)
Net increase in cash	3,387	206,626	102,251
Cash at beginning of year	$ 550,007	$ 343,381	$ 241,130
Cash at end of year	$ 553,394	$ 550,007	$ 343,381

Net cash provided by operating activities totaled $503.0 million in 2017 compared to $502.1 million in 2016. The Health System had strong collections on patient accounts and had solid results from operations. Net cash used in capital financing activities totaled $226.1 million in 2017, an increase of $55.1 million compared to 2016 as a result of purchases of Health System capital assets and the payment of debt obligations. Net cash used in investing activities totaled $275.2 million related to the reinvestment of funds back into the Medical Center for research, education, and programs at the Medical Center and the purchase of investments for investment into the University's Long-Term Investment Pool.

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 as well as 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 and quaternary care delivery across a broader geographic area.

The Health System will continue creating an innovative healthcare delivery model to deliver high value care with an unparalleled patient experience and access. The Health System expanded its ambulatory care delivery model with the opening of the new outpatient facility in Upper Arlington as well as the addition of The Jameson Crane Sports Medicine Institute. Additionally, the Wexner Medical Center opened the new The Brain and Spine Hospital, which is 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)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	$ 553,394	$ 550,007
Patient accounts receivable, net of estimated uncollectibles of $84,405 in 2017 and $87,133 in 2016	375,530	324,460
Pledge receivables, net	991	1,439
Other receivables	46,297	38,299
Inventory	33,410	24,846
Prepaid expenses and other current assets	12,371	8,203
Total current assets	1,021,993	947,254
Assets whose use is limited	135,816	255,498
Long-term investment pool	267,236	-
Investment in subsidiaries	14,793	12,901
Capital assets, net	1,390,555	1,370,708
Long term pledge receivables, net	6,402	7,290
Long term receivables and other noncurrent assets	11,577	27,135
Total noncurrent assets	1,826,379	1,673,532
Deferred outflows-pension	395,460	292,219
Total assets and deferred outflows	$ 3,243,832	$ 2,913,005
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 150,018	$ 138,585
Accrued salaries and benefits	55,892	47,796
Compensated absences	7,072	5,230
Third-party payor settlements	28,494	28,483
Current portion of long-term debt	49,059	46,744
Total current liabilities	290,535	266,838
Long-term debt less current portion	750,029	793,762
Compensated absences less current portion	54,884	53,480
Third-party payor settlements less current portion	38,032	42,745
Net pension liability	1,110,007	829,337
Other noncurrent liabilities	825	3,110
Total noncurrent liabilities	1,953,777	1,722,434
Deferred inflows-pension	8,787	18,069
Total liabilities and deferred inflows	2,253,099	2,007,341
Net Position		
Net investment in capital assets	591,467	530,202
Restricted:		
Nonexpendable	4,965	4,448
Expendable	19,161	22,018
Unrestricted	375,140	348,996
Total net position	990,733	905,664
Total liabilities, deferred inflows, and net position	$ 3,243,832	$ 2,913,005

The accompanying notes are an integral part of these financial statements

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(in thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Operating Revenues		
Net patient service revenue	$ 2,688,377	$ 2,527,135
Provision for bad debts	(27,730)	(55,886)
Net patient service revenue less provision for bad debts	2,660,647	2,471,249
Other revenue	192,757	157,024
Total Operating Revenue	2,853,404	2,628,273
Operating Expenses		
Salaries and benefits	1,216,318	1,143,747
Supplies and drugs	662,866	579,689
Purchased services	345,236	304,166
Depreciation	143,137	140,323
Pension	168,147	63,005
Other expenses	96,637	101,257
Total Expenses	2,632,341	2,332,187
Operating Income	221,063	296,086
Non-Operating Revenues (Expenses)		
Interest expense	(39,865)	(41,582)
Income from investments	24,992	2,578
Gifts	(25)	(679)
Other non-operating revenues (expenses)	8,871	(7,799)
Total Non-Operating Expenses	(6,027)	(47,482)
Income Before Other Changes in Net Position	215,036	248,604
Other Changes in Net Position		
Medical Center investments	(145,210)	(125,272)
Capital contributions	14,726	3,192
Additions to permanent endowments	517	(256)
Total Other Changes in Net Position	(129,967)	(122,336)
Increase in Net Position	85,069	126,268
Net Position - Beginning of Year	905,664	779,396
Net Position - End of Year	$ 990,733	$ 905,664

The accompanying notes are an integral part of these financial statements

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 2,603,242	$ 2,476,595
Other receipts	213,164	132,996
Payments to and on behalf of employees	(1,252,615)	(1,186,877)
Payments to vendors for supplies and services	(952,740)	(853,994)
Payments on other expenses	(108,058)	(66,585)
Net cash provided by operating activities	502,993	502,135
Cash flows from non-capital financing activities		
Gift receipts for current use	1,163	986
Additions (Reductions) to permanent endowments	517	(256)
Net cash provided by non-capital financing activities	1,680	730
Cash flows from capital financing activities		
Purchase of capital assets	(163,802)	(86,792)
Repayments of long-term debt	(47,621)	(46,525)
Cash paid for interest	(38,726)	(40,791)
Contributions and transfers for property acquisitions	24,073	3,141
Net cash used in capital financing activities	(226,076)	(170,967)
Cash flows from investing activities		
Medical Center investments	(145,210)	(125,272)
Transfer of assets whose use is limited	120,000	-
Purchase of long-term investments	(250,000)	-
Net cash used in investing activities	(275,210)	(125,272)
Net increase in cash and cash equivalents	3,387	206,626
Cash and cash equivalents at beginning of year	550,007	343,381
Cash and cash equivalents at end of year	$ 553,394	$ 550,007
Reconciliation of operating income to net cash provided in operating activities		
Operating Income	221,063	296,086
Adjustments to reconcile operating income to net cash provided by operations:		
Pension (benefit)	168,147	63,005
Depreciation	143,137	140,323
Changes in operating assets and liabilities:		
Patient accounts receivable	(51,070)	(25,122)
Other receivables	6,960	(6,239)
Inventories	(8,564)	(2,343)
Prepaid expenses and other assets	(4,169)	(4,289)
Accounts payable/accrued expenses	23,134	13,223
Accrued salaries and benefits	8,095	7,836
Third party payor settlements	(4,702)	18,417
Compensated absences	3,247	1,299
Other liabilities	(2,285)	(60)
Net cash provided (used) by operating activities	502,993	502,135
Non Cash Transactions		
Unrealized (gain)/loss on investments	(17,236)	-

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

NOTE 1 – ORGANIZATION

The Ohio State University Wexner Medical Center Health System (the "Health System" or the “System”) operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of departments representing the financial activities of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, Brain and Spine Hospital, 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 Health 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 Health 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 Health System reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

New Accounting Pronouncements:

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This standard, which is the companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer’s pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans. The standard is effective for periods beginning after June 15, 2017 (FY2018).

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018 (FY2019).

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (FY2020).

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for BTAs), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards. This standard is effective for periods beginning after June 15, 2017 (FY2018).

In June 2017, the GASB issued Statement No. 87, Leases. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees will record an intangible right-of-use asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less. This standard is effective for periods beginning after December 15, 2019 (FY2021).

Health System management is currently assessing the impact that implementation of GASB Statements No. 75, 83, 84, 85, and 87 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:
  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 $553,394 at June 30, 2017 and $550,007 at June 30, 2016 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 Health System's revenue is received from governmental payers: 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 Health 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 Health System for services provided to its beneficiaries. The Ohio State University Hospital, The Richard M. Ross Heart Hospital, and The Ohio State University Hospital East reimbursement for inpatient services are based on a prospective payment system (PPS) that utilizes Medicare Severity Diagnostic Related Groups (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). In addition, the James receives Hold Harmless payments up to a published payment to cost ratio (PCR). 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.

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 Institute. 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 through 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, 2017. 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, 2014 and June 30, 2011 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, 2014 and June 30, 2011 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 2017 and 2016 totaled $3,982 and $244 respectively and are recorded in capital contributions within Other Changes in Net Position. The $3,982 in 2017 and $244 in 2016 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 $1,481 at June 30, 2017 and $1,386 at

June 30, 2016. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

Inventories:

Inventories for the Health System consist primarily of pharmaceutical drugs, operating room supplies, and information technology equipment, 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 not related to current operations with Medical Center Board of Directors' approval.

These funds are invested in The Ohio State University investment pool. 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, 2017 and 2016:

	2017	2016
	(in thousands)	
Funds held for capital replacement	$ 87,785	$ 87,467
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
Funds held by University	-	120,000
Total assets whose use is limited	**$ 135,816**	**$ 255,498**

Operating Funds and Endowments in University Long-Term Investment Pool:

Amounts invested in The Ohio State University Long-Term Investment Pool are recorded at fair value. These funds are managed by the Investment Office of the University, which commingles the funds with other University related organizations. Earned investment income by a fund is based on the moving average of its monthly market value percentage to the overall pool. Investments are carried at fair value in accordance with GASB Statement No. 31, Accounting and Reporting for Certain Investments and for External Investment Pools as amended by GASB Statement 72, Fair value Measurement and Application.

The net increase in the value of investments during the year ended June 30, 2017 is $17,236. This amount takes into account all changes in fair value (including purchase and sales) that occurred during the fiscal year.

The calculation of unrealized gain or loss is independent of the calculation of the net increase in fair value of investments. As of June 30, 2017, there is a cumulative unrealized gain on investments of $17,236. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long-Term Investment Pool. Net appreciation related to operating funds is classified as unrestricted net position. Net appreciation related to endowment funds is classified as restricted-expendable net position.

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 $4,965 and $4,448 at June 30, 2017 and 2016, respectively.

Investments in Subsidiaries:

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

Capital Assets:

Capital asset acquisitions are recorded at cost or at 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:

Net 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, 2017 and 2016 are summarized as follows:

(in thousands)

	2017	2016
Total patient service revenue	$ 8,456,168	$ 7,866,981
Contractual allowances and other discounts	(5,767,791)	(5,339,846)
Provision for bad debts	(27,730)	(55,886)
Net patient service revenue	**$ 2,660,647**	**$ 2,471,249**

Additionally, net patient service revenue is reported net of contractual allowances and other discounts and excludes provision for bad debts. Net patient service revenue amounts recognized from major payor sources (based on primary payor) for fiscal 2017 and 2016, respectively, is as follows:

2017	**Third Party**	**Self-Pay**	**Total All Payors**
Patient service revenue (net of contractual allowances and other discounts)	$ 2,650,279	$ 38,098	$ 2,688,377
2016			
Patient service revenue (net of contractual allowances and other discounts)	$ 2,490,232	$ 36,903	$ 2,527,135

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 adjusted by support received under the Health Care Assurance Program (HCAP) to arrive at net cost of charity care. HCAP is administered by the State of Ohio to help hospitals cover a portion of the costs of providing charity care. The cost of providing charity for the fiscal years 2017 and 2016 are as follows:

	2017	2016
Total cost of charity care	$ 30,294	$ 23,640
Less Health Care Assurance Program support	12,416	12,380
Net cost of charity care	**$ 42,710**	**$ 36,020**

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 7 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

(in thousands)

NOTE 3 – LONG-TERM INVESTMENT POOL

In fiscal year 2017, the Health System transferred $250,000 to the University, for investment in the University's Long-Term Investment Pool. In addition, certain endowment funds, 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.

The pool consists of more than 5,275 named funds. Each named fund in the Long-Term Investment Pool is assigned a number of shares, based on the value of the original gift amounts, income-to-principal transfers or transfers of operating funds to that named fund. The pool is invested in a diversified portfolio of equities and fixed income securities, as well as a number of alternative investment funds, such as real estate limited partnerships, hedge funds, private equity funds, venture capital funds and natural resources funds. The pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support the Health System's mission.

The University holds certain types of alternative investment funds, including limited partnerships and private equity, which are carried at the net asset values provided by the management of these funds. The purpose of this alternative investment fund class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Management of the alternative investment funds, namely the general partner, use methods such as discounted cash flows, recent transactions, and other model-based calculations, to estimate the fair value of the investment held by the fund.

Annual distributions to named funds in the Long-Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is 4.5% of the average market value per share of the Long-Term Investment Pool over the most recent seven-year period.

At June 30, 2017, the original cost and market value of the Health System's operating investments in the pool were $250,000 and $267,236, respectively.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 is summarized as follows:

	2017			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 150,792	6,915	307	$ 157,400
Buildings	1,004,949	88,596	968	1,092,577
Leasehold Improvements	28,843	1,135	83	29,895
Equipment - fixed	511,085	2,513	117	513,481
Equipment - moveable	614,201	76,015	28,995	661,221
Construction in progress	47,769	136,904	149,175	35,498
	2,357,639	312,078	179,645	2,490,072
Less accumulated depreciation	986,931	143,155	30,569	1,099,517
Capital assets, net	$ 1,370,708	168,923	149,076	$ 1,390,555

Capital assets placed in service in 2017 were $175,174. The balance of capital assets placed in service is due primarily from the opening of the Brain and Spine Hospital, Jameson Crane Sports Medicine Institute, and Outpatient Care Upper Arlington during the fiscal year.

(in thousands)

	2016			
	Beginning Balance	Additions	Retirements and Reductions	Ending 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

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.

NOTE 5 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017 is summarized as follows:

	2017			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2015, 4.75% through 2031	$ 8,078	$ -	$ 397	$ 7,681
2013, 4.75% through 2032	408,491	-	17,471	391,020
2010, 4.95% through 2031	277,404	-	13,638	263,766
2008, 3.83%-4.03% through 2029	57,633	-	3,621	54,012
2005, 3.83%-4.03% through 2026	48,494	-	4,454	44,040
2003, 4.32%-4.57% through 2024	24,920	-	4,076	20,843
1999, 5.14% through 2030	5,427	-	328	5,099
Other Financing:	-			
2016 Master Lease, 1.67% through 2021	-	4,230	612	3,618
2016 Master Lease, 2.058% through 2021	-	2,200	105	2,095
Mgmt Svc , 4.38% through 2022	1,200	-	387	813
2013, 4.50% through 2021	3,402	-	727	2,675
2012, 2.25%-4.00% through 2021	1,280	-	1,156	124
2010, 3.65%-5.84% through 2021	4,178	-	875	3,303
Total Long Term Obligations	**840,506**	**6,430**	**47,848**	**799,088**
Less Current Portion of Long-Term Debt	46,744	49,059	46,744	49,059
Net Long Term Debt	**$ 793,762**	**$ (42,629)**	**$ 1,104**	**$ 750,029**

The $6,430 additions to debt related to Other Financing in fiscal year 2017 were used to fund the Da Vinci Robots at The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute and University

(in thousands)

Hospital East for $4,230 and $2,200, respectively. The Health System received no additions to debt in 2017 related to University Bonds.

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

	2016			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
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
Other Financing:	-			
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
Total Long Term Obligations	**886,878**	**-**	**46,372**	**840,506**
Less Current Portion of Long-Term Debt	47,646	46,744	47,646	46,744
Net Long Term Debt	**$ 839,232**	**$ (46,744)**	**$ (1,274)**	**$ 793,762**

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

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 2017 and 2016 related to University Bonds

Other Financing

The loan pertaining to the Da Vinci Robots at The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute is to be repaid in twenty quarterly installments at an interest rate of 1.67%. The loan pertaining to the Da Vinci Robots at University Hospital East is to be repaid in twenty quarterly installments at an interest rate of 2.058%. The Health System received no additions to debt in 2016 related to Other Financings.

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

(in thousands)

	Principal	Interest	Total
2018	49,226	36,566	85,792
2019	50,273	34,280	84,553
2020	52,138	31,941	84,079
2121	53,372	29,508	82,881
2122	54,243	27,029	81,271
2023-2027	282,551	95,726	378,277
2028-2032	257,286	28,105	285,391
	$ 799,088	$ 283,156	$ 1,082,244

NOTE 6 – 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 2017 and 2016 were $20,707 and $19,319, 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, 2017, that have initial or remaining lease terms in excess of one year:

2018	$ 12,041
2019	10,562
2020	9,641
2021	8,768
2022	8,926
2023-2027	44,312
2028-2032	28,815
2033-2035	1,587
	$ 124,653

NOTE 7 - 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, 2017. The medical liability expense is recorded as period expenses for the Health System. There was no medical liability expense for fiscal year 2017. Medical liability expense totaled $33 fiscal year 2016.

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

(in thousands)

aggregate limits. Effective July 1, 2016, Oval Limited provides coverage with limits of $85,000 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 A.M. Best rating of A (Berkley Insurance Company: A+, Lexington Insurance Company: A, Endurance Specialty Insurance Ltd: A+, Medical Protective A++, Berkshire Hathaway – National Liability & Fire Insurance Company: A++). Oval Limited retains 50% of the first $15,000 of risk and cedes the remainder to Berkley Medical Excess Underwriters.

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. There were no contributions to Oval in fiscal year 2017. Contributions totaled $2,372 in fiscal year 2016 to Oval.

There has not been a settlement in the past two 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 two years beyond its actuarially determined and Self Insurance Board approved funding levels.

NOTE 8 - 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	OPERS, Attn: Finance Director
275 East Broad Street	277 East Town Street
Columbus, OH 43215-3371	Columbus, OH 43215-4642
(614) 227-4090	(614) 222-5601
(888) 227-7877	(800) 222-7377
www.strsoh.org	www.opers.org/investments/cafr.shtml

In 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

(in thousands)

amortized 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, 2017 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 33,473,014	$ 22,652,226	
Proportion of the net pension liability - Health System	0.016%	4.876%	
Proportionate share of net pension liability	$ 5,450	$ 1,104,558	$ 1,110,007

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:

	STRS-Ohio	OPERS	Total
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

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2017:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 220	$ 1,773	$ 1,993
Changes in assumptions	-	176,896	176,896
Net difference between projected and actual earnings on pension plan investments	452	164,699	165,151
Changes in proportion of university contributions	3	625	628
Employer contributions subsequent to the measurement date	254	50,537	50,791
Total	**$ 929**	**$ 394,530**	**$ 395,459**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 8,752	$ 8,752
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion of university contributions	$ -	$ 34	34
Total	**$ -**	**$ 8,786**	**$ 8,786**

(in thousands)

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

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
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
Total	**$ 641**	**$ 291,577**	**$ 292,218**
Deferred Inflows of Resources:			
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
Total	**$ 459**	**$ 17,610**	**$ 18,069**

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
2018	362	189,252	189,614
2019	109	143,323	143,432
2020	278	58,540	58,818
2021	180	(5,028)	(4,848)
2022	-	(149)	(149)
2023 and Thereafer	-	(193)	(193)
Total	**$ 929**	**$ 385,745**	**$ 386,674**

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.

(in thousands)

	STRS-Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145
Benefit Formula	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 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.	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.
Cost-of-Living Adjustments	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. In April 2017, STRS-Ohio announced that, effective July 1, 2017, it would indefinitely suspend the annual COLA for all retirees.	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.
Contribution Rates	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, 2016, the employer rate was 14% and the member rate was 13% of covered payroll. The statutory employer rate for fiscal 2017 and subsequent years is 14%. The statutory member contribution rate increased to 14% on July 1, 2016.	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2016, 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).
Measurement Date	June 30, 2016	December 31, 2016

(in thousands)

	STRS-Ohio	OPERS
Actuarial Assumptions	**Valuation Date:** July 1, 2016 **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.75% **Inflation:** 2.75% **Projected Salary Increases:** 2.75% - 12.25% **Cost-of-Living Adjustments:** 2.00% Simple, applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA commences on fifth anniversary of the retirement date.	**Valuation Date:** December 31, 2016 **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.5% **Inflation:** 3.25% **Projected Salary Increases:** 3.25% - 10.75% **Cost-of-Living Adjustments:** 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple.
Mortality Rates	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-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.
Date of Last Experience Study	July 1, 2012	December 31, 2015

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td>Investment Return Assumptions</td><td>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:

<table><tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr><tr><td>Domestic Equity</td><td>31.0%</td><td>8.00%</td></tr><tr><td>International Equity</td><td>26.0%</td><td>7.85%</td></tr><tr><td>Alternatives</td><td>14.0%</td><td>8.00%</td></tr><tr><td>Fixed Income</td><td>18.0%</td><td>3.75%</td></tr><tr><td>Real Estate</td><td>10.0%</td><td>6.75%</td></tr><tr><td>Liquidity Reserves</td><td>1.0%</td><td>3.00%</td></tr><tr><td>Total</td><td>100%</td><td></td></tr></table>
* Returns presented as geometric means</td><td>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 2016 and the long-term expected real rates of return:

<table><tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr><tr><td>Fixed Income</td><td>23.0%</td><td>2.75%</td></tr><tr><td>Domestic Equity</td><td>20.7%</td><td>6.34%</td></tr><tr><td>Real Estate</td><td>10.0%</td><td>4.75%</td></tr><tr><td>Private Equity</td><td>10.0%</td><td>8.97%</td></tr><tr><td>International Equity</td><td>18.3%</td><td>7.95%</td></tr><tr><td>Other Investments</td><td>18.0%</td><td>4.92%</td></tr><tr><td>Total</td><td>100.0%</td><td></td></tr></table>
* Returns presented as arithmetic means</td></tr>
<tr><td>Discount Rate</td><td>The discount rate used to measure the total pension liability was 7.75% as of June 30, 2016. 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, 2016. 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, 2016.</td><td>The discount rate used to measure the total pension liability was 7.5% 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.</td></tr>
</table>

(in thousands)

	STRS-Ohio			OPERS		
Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
	$ 7,242	$ 5,450	$ 3,938	$ 1,691,896	$ 1,104,558	$ 615,328

Changes in Assumptions between Measurement Date and Report Date

In March 2017, the STRS-Ohio Board adopted certain assumption changes, which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75% to 7.45%. Also, in April 2017, the STRS-Ohio Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amounts of these changes are not known, they are expected to have an impact on net pension liabilities to be reported at June 30, 2018.

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.

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, 2017, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

(in thousands)

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	$ 202	$ 101,364	$ 11,117	$ 112,683
GASB 68 Accruals	(1,680)	169,827		168,147
Total Pension Expense	**$ (1,478)**	**$ 271,191**	**$ 11,117**	**$ 280,830**

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	**$ (17)**	**$ 158,104**	**$ 10,252**	**$ 168,340**

Pension expense is allocated to institutional functions on the Statement of Revenues, Expenses and Other Changes in Net Position.

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, 2016, 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 2016, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.

NOTE 9 – 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

(in thousands)

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 civil 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 10.

NOTE 10 – OTHER NONCURRENT LIABILITIES

Other noncurrent liability activity for the years ending June 30, 2017 and 2016 is summarized as follows:

	2017			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 53,480	$ 6,689	$ 5,285	$ 54,884
Third party payor settlements	42,745	58,046	62,759	38,032
Other noncurrent liabilities	3,110	2,494	4,779	825
	99,335	67,229	72,823	93,741

	2016			
	Beginnng 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
	104,749	60,750	66,164	99,335

The increase in compensated absences from 2016 to 2017 is reflective of the increase in FTEs and a larger workforce. The decrease in third-party payor settlements in 2017 reflects updated calculations for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. The decrease in other noncurrent liabilities from 2016 to 2017 reflects the recognition of unearned revenue arising from the Community Connect Program including Avita Health System and Mercer Hospital's rights to use the integrated medical record system.

NOTE 11 – 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, 2017 and 2016 is summarized as follows:

(in thousands)

Payor - receivables	2017	2016
Medicare	24%	24%
Medicaid	15%	16%
Managed Care	55%	54%
Self Pay	6%	6%
Total	100%	100%

NOTE 12 – 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 $48,902 and $48,996 for the years ended June 30, 2017 and 2016, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected $86,744 for healthcare services in 2017 and $80,473 in 2016 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 in other receivables as of June 30, 2016 from OSUP to cover OSUP's share of the system's implementation and operating costs. There is no receivable recorded in fiscal year 2017 for OSUP's share of the system's IHIS implementation as the arrangement has been paid in full.

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 $145,210 for fiscal year 2017 and $125,272 for fiscal year 2016 and are reflected as Other Changes in Net Position.

Oval

The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are 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. There were no contributions to Oval in fiscal year 2017. See NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

MedFlight

The Health System has an investment interest in MedFlight, 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 $10,684 for fiscal year 2017 and $9,266 for fiscal year 2016.

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 $4,026 for fiscal year 2017 and $3,538 for fiscal year 2016.

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 March 2017 the Health System purchased 700 Ackerman Road from Medstone for $8,850 subject to the current lease agreements with the tenants in the building. The building was placed in service upon acquisition and capitalized according to Health System policy, recognizing land and building. Depreciation expense is being recognized according to Health System policy. Following the purchase, Medstone returned the original grant of $8,850 to the Health System. This repayment has been recorded in Other non-operating revenues to be consistent with the original grant accounting treatment.

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 20-year lease term is greater than 75% of the estimated economic life of the asset and qualifies as a capital lease under GASB 62 *Classification of Leases*. The economic life of the Upper Arlington outpatient facility at Kingsdale is approximately 20 years. The Health System made prepaid rent payments to Medstone totaling $17,572 to fund construction of the facility during fiscal 2016.

In July 2016, the Health System reclassified Upper Arlington outpatient facility in Kingsdale to Property, Plant, and Equipment and capitalized the facility as an asset in 2017. There is no debt related to Upper Arlington outpatient facility in Kingsdale as the agreement was paid in full during fiscal 2016.

NOTE 13 – 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 14 - COMPLIANCE

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The estimated Medicare and Medicaid cost report settlements recorded at June 30, 2017 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 15 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through October 16, 2017, 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)

Required Supplementary Information:

	2017		2016	
	STRS-Ohio	**OPERS**	**STRS-Ohio**	**OPERS**
Schedule of Proportionate Share of the Net Pension Liability				
Health System proportion of the collective net pension liability	0.016%	4.876%	0.023%	4.765%
Health System proportionate share of the net pension liability	$ 5,450	$1,104,558	$ 6,382	$ 822,955
Health System covered payroll	$ 1,417	$ 694,019	$ 2,001	$ 654,922
Health System proportionate share of the net pension liability as a percentage of its covered payroll	385%	159%	319%	126%
Plan fiduciary net position as a percentage of the total pension liability	66.8%	77.4%	72.1%	81.2%
Schedule of Health System Contributions				
Contractually required contribution	$ 202	$ 101,364	$ 221	$ 94,862
Contributions in relation to the contractually required contribution	$ 202	$ 101,364	$ 221	$ 94,862
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Health System covered payroll	$ 1,316	$ 719,422	$ 1,417	$ 673,340
Contributions as a percentage of covered payroll	15.3%	14.1%	15.6%	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 41, which consist of the statement of net position as of June 30, 2017 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 16, 2017, which included a matter of emphasis paragraph concerning the scope of the Health System's financial statement presentation as discussed in Note 1 of the financial statements.

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 16, 2017

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 12, 2017

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