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

Consolidated Financial Statements as of and for the Years Ended June 30, 2015 and 2014, Independent Auditor's Report, and Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2014 through June 30, 2015. 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

December 14, 2015

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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

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Independent Auditor's Report

To the Board of Trustees of
The Ohio State University

We have audited the consolidated financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, appearing on pages 15 to 38, which consist of the consolidated statements of net position as of June 30, 2015 and June 30, 2014 and the related consolidated statements of revenues, expenses, and other changes in net position and of cash flows for the years then ended, which collectively comprise the Health System's basic consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health System at June 30, 2015 and June 30, 2014, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Health System 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, 2015, 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.

As discussed in Note 2 to the consolidated basic financial statements, the Health System adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27, effective July 1, 2014. 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 14 and the Supplementary Information on GASB 68 Pension Liabilities on page 39 are required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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, 2015. 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 30, 2015

Introduction

The following discussion and analysis provides an overview of the financial position and its activities of The Ohio State University Wexner Medical Center Health System (the "Health System") as of and for the years ended June 30, 2015, 2014, and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

About The Ohio State University Wexner Medical Center Health System

The Ohio State University Wexner Medical Center is one of the the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and 14 primary care locations. The System provided services to approximately 58,200 adult inpatients and 1,664,000 outpatients during fiscal year 2015, 57,000 adult inpatients and 1,593,000 outpatients during fiscal year 2014, and 56,500 adult inpatients and 1,485,000 outpatients during fiscal year 2013.

The Health System operates nearly 1,300 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. Its six Signature Programs earn international distinction in Cancer, Critical Care, Imaging, Heart, Neurosciences, and Transplantation. The Wexner Medical Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 23 consecutive years as one of “America’s Best Hospitals” and has seven nationally ranked specialties and is recognized as high-performing in five others. The Medical Center is ranked first in central Ohio and leads the region for the twenty-third year in a row for strong commitment to serving the healthcare needs of the people of Ohio. It is one of 12 medical centers in the nation delivering the highest quality of care based on results of a study commissioned by the University Health System Consortium (UHC).

The largest development project in the history of The Ohio State University was completed in fiscal 2015. Included in the project was the construction of the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute (“The James”). The new tower is a transformational facility that fosters the collaboration and integration of cancer research and clinical cancer care. The James is the largest cancer hospital in the Midwest and the third largest in the nation. The new 21-level tower opened in December 2014 and has 14 operating rooms and 306 inpatient beds.

The Health System works with a strong physician group that provides exceptional patient care. Of the central Ohio honorees listed on "Best Doctors in America" list, 79 percent were Ohio State faculty. The Wexner Medical Center is the Midwest’s highest ranked hospital for safety and patient care.

Operating and Financial Highlights

	Fiscal Year June 30,		
	2015	**2014**	**2013**
Selected Statistics			
Admissions	58,211	57,024	56,592
Avg. Daily Census	972	951	925
Outpatient Visits	1,664,152	1,592,483	1,485,147
Emergency Visits	125,327	117,977	118,280
Observation Patients	12,635	11,548	10,985
Surgeries	40,951	38,381	38,627

In 2015, the Health System continued "creating the future of medicine to improve people's lives" and remained financially sound due to solid activity levels and strong expense management. Inpatient admissions increased 2.1% compared with prior year. Consistent with industry trends, the patient environment continues to experience strong movement to an outpatient setting and to an increased use of observation beds. Outpatient visits increased 4.5% and total observation patients increased 9.4% over the previous year. The Health System continued its ambulatory expansion strategy and meeting the needs of the community by opening Healthy New Albany and breaking ground for future sites of the Upper Arlington outpatient facility in Kingsdale and The Jameson Crane Sports Medicine Institute.

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

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

Income before other changes in Net Position was $330.1 million in 2015 versus $229.1 million in 2014 reflecting the increased volumes due to the opening of the new James Cancer Hospital as well as strong activities, a strong patient mix and maintaining expenses in line with activities throughout the Health System.

Changes to Net Position included $136.9 million reinvested back into research, education, and programs at the Medical Center. In December of 2010, the Health System was awarded a $100 million grant from The Health Resources and Services Administration (HRSA), an Agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Approximately $20.9 million of the total grant was recognized under Capital Contributions as a change in Net Position in 2015, $23.3 million in 2014, and $23.1 million in 2013. Additionally, $1.6 million in 2015, $9.3 million in 2014, and $20.7 million in 2013 of other restricted expendable funds and pledges (in support of the tower and other initiatives) have been recorded. In total, after accounting for these changes and the impact of the Health System’s operating results, the Health System’s Net Position increased $215.8 million in 2015, $141.6 million in 2014 and $134.7 million in 2013.

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

The Health System is placing significant focus on efficiency and cost reduction and will aggressively control expenses as reimbursements come under pressure. Key in these initiatives is the creation of value through continued use of evidenced based practice, effective patient management during and after the hospital experience, and the use of our electronic medical record systems to reduce unnecessary treatment and costs. The Health System has effectively controlled and reduced costs of supplies and will continue to do so through aggressive contracting, standardization, and strategic sourcing. Significant effort is being placed in streamlining and refining revenue cycle activities. Ohio State University Physicians (OSUP) implemented the Epic Physician Billing system in fiscal 2015 and had it integrated within the Health System’s Epic patient and revenue cycle systems. Activities such as centralized patient

scheduling, insurance precertification, payment at point of service and other administrative activities are consolidated across the Medical Center.

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

Using the Financial Statements

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

Statement of Net Position

The statement of net position represents the financial position of the Health System at the end of the fiscal year and includes all assets and deferred outflows and liabilities and deferred inflows. The difference between total assets and deferred outflows and total liabilities and deferred inflows – net position – is one indicator of the current financial condition of the Health System, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. Included in deferred outflows and deferred inflows in 2015 is the impact of the recognition of GASB 68. The Statements of Net Position at June 30, 2015, 2014, and 2013 are summarized as follows:

	2015	2014	2013
		(in thousands)	
Current assets	$ 715,622	$ 553,968	$ 469,867
Noncurrent assets			
Assets whose use is limited	255,029	284,044	203,395
Capital assets, net	1,420,127	1,294,311	1,082,739
Other	35,606	36,554	38,119
Deferred outflows-pension	74,024	-	-
Total assets and deferred outflows	2,500,408	2,168,877	1,794,120
Other current liabilities	163,179	129,154	115,055
Current portion of long-term debt	47,646	44,273	41,072
Total current liabilities	210,825	173,427	156,127
Noncurrent liabilities			
Long-term debt	839,232	840,551	643,935
Net pension liability	554,513	-	-
Other noncurrent liabilities	104,749	89,111	69,841
Deferred inflows-pension	11,693	-	-
Total liabilities and deferred inflows	1,721,012	1,103,089	869,903
Net position	779,396	1,065,788	924,217
Total liabilities, deferred inflows, and net position	$ 2,500,408	$ 2,168,877	$ 1,794,120

Current Assets and Current Liabilities

	2015	2014	2013
		(in thousands)	
Current Assets			
Cash and cash equivalents	$ 343,381	$ 241,130	$ 187,965
Patient accounts receivable, net	299,338	262,548	238,596
Inventories, Prepaids, Other Receivables	72,903	50,290	43,306
Total Current Assets	**$ 715,622**	**$ 553,968**	**$ 469,867**

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 2013 to 2015 is a result of solid operating performance, increased volumes related to the opening of the new James Cancer Hospital, strong expense management, and an increased insured population related to healthcare reform and Medicaid expansion.

Patient accounts receivable, net represent amounts due from third party payors and patients after allowances for discounts and bad debts. The Health System implemented the Epic physician billing module in July 2014. This implementation not only replaced the old professional billing system but integrated hospital and physician billing all in one electronic medical record system. As of the end of the 2015 fiscal year, patient accounts receivable, net increased $36.8 million from 2014 as a result of the increased activity from the opening of the new James Cancer Hospital, an increase in outpatient activity described above and an increased insured population related to healthcare reform and Medicaid expansion. As of the end of the 2014 fiscal year, Patient accounts receivable net increased $24.0 million from 2013, reflecting continued optimization of the Integrated Healthcare Information System (IHIS).

Inventories, prepaids, and other receivables include medical supply, pharmaceutical, and information technology inventory as well as prepaid preventative maintenance contracts on equipment and software. Additionally, other receivables represent amounts due from nonpatient activity, reference labs, and other revenue from Nationwide Children's Hospital management of the Neonatal Intensive Care Unit (NICU). As of the end of the 2015 fiscal year, inventories, prepaids, and other receivables increased $22.6 million from 2014 as a result an increase in other receivables from Nationwide Children's Hospital management of the NICU. As of the end of the 2014 fiscal year, inventories, prepaids, and other receivables increased $7.0 million from 2013, reflecting an increase in current third party receivables for settlements.

	2015	2014	2013
		(in thousands)	
Current Liabilities			
Accounts payable and accrued expenses	$ 114,576	$ 97,967	$ 80,378
Accrued salaries & benefits	39,960	31,187	32,136
Current portion of long-term debt	47,646	44,273	41,072
Third-party payor settlements	8,643	-	2,541
Total Current Liabilities	**$ 210,825**	**$ 173,427**	**$ 156,127**

Accounts payable and accrued expenses increased $16.6 million from 2014 to 2015 due to changes in purchasing contracts and lengthened vendor payment terms. Accounts payable and accrued expenses increased $17.6 million from 2013 to 2014 due to purchases of capital equipment for the Medical Center

Expansion (MCE) project at year end. Current portion of long-term debt increased from 2013 to 2015 due to the acquisition of more debt from the University for the MCE project.

Assets Whose Use is Limited

	2015	2014	2013
		(in thousands)	
Assets whose use is limited			
Construction funds held for MCE	$ -	$ 88,887	$ 8,059
Funds held for capital replacement	86,998	86,619	86,305
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	60,507	61,000
Total Assets Limited as to Use	**$ 255,029**	**$ 284,044**	**$ 203,395**

Assets whose use is limited is comprised of funds set aside for specific purposes. Construction funds held for MCE are funds set aside for the Medical Center Expansion project. These funds represent unspent debt proceeds assigned from The Ohio State University to the Health System. The decrease in Construction funds held for MCE from 2014 to 2015 represent the Health System's full use of debt proceeds for MCE. Additionally, the growth in Funds held by University from 2014 to 2015 represent increases in reserves set aside for delays in payment related to the ICD-10 implementation, capital projects, and investments for research, education, and programs at the Medical Center.

Capital Assets, Medical Center Expansion, and Long Term Debt

	2015	2014	2013
		(in thousands)	
Capital Assets - Net			
Property, Plant, and Equipment	$ 2,246,534	$ 1,202,477	$ 1,172,298
Construction In Progress	26,081	868,765	633,908
Accumulated Depreciation	(852,488)	(776,931)	(723,467)
Capital Assets - Net	**$ 1,420,127**	**$ 1,294,311**	**$ 1,082,739**

MCE construction has successfully completed on the tower containing the new James Cancer Hospital and new critical care units. The new tower opened in December 2014 with 306 inpatient beds, 14 operating rooms, 6 interventional radiology suites, and 7 linear accelerators for radiation therapy. The hospital has capacity for an additional 72 beds for future growth.

In additional to the new James Cancer Hospital, components of MCE included the two floor addition to the Ross Heart Hospital, the construction of a new MRI facility, and north Doan renovations. In total, the cost of the project was $1.1 billion, with major components as follows:

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

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

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

A total of $89.0 million of principal and interest was incurred in 2015, $86.5 million in 2014, and $66.0 million in 2013 for bonds and other financings. Total principal and interest incurred on bonds related to MCE totaled $65.4 million in 2015, $61.5 million in 2014, and $36.3 million in 2013.

Additionally, in December of 2010, the Health System was awarded a $100 million grant from The Health Resources and Services Administration (HRSA), an Agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Through June 2015, $97.9 million ($20.9 million in 2015, $23.3 million in 2014, and $23.1 million in 2013) has been drawn on the grant and used in support of construction and is included in Other Changes in Net Position. The remaining $2.1 million of the grant was funded by HRSA in early fiscal 2016.

A total of $197.6 million in 2015, $222.0 million in 2014, and $223.8 million in 2013 was spent on MCE construction costs. In addition, the Health System expended $37.2 million in 2015, $54.5 million in 2014, and $61.2 million in 2013 for equipment, renovations and infrastructure for routine capital not related to MCE.

Other Noncurrent Assets and Noncurrent Liabilities

	2015	2014	2013
		(in thousands)	
Other Noncurrent Assets			
Investment in subsidiaries	$ 11,803	$ 12,851	$ 12,780
Long term pledges receivable, net	9,882	11,918	13,319
Long term receivables and other noncurrent assets	13,921	11,785	12,020
Total Other Noncurrent Assets	**35,606**	**36,554**	**38,119**

The Health System has investment interests in a community based air ambulance/intensive care transport and in a joint venture with partial ownership in a community hospital. The change in investment balance reflects the Health System's equity interest in these investments. Included in long term receivables and other noncurrent assets are endowment assets of $4.7 million in 2015, $4.7 million in 2014, and $4.3

million in 2013. Additionally, the Health System has recorded $4.0 million in 2015, $6.5, million in 2014, and $6.5 million in Long term receivables and other noncurrent assets due from OSUP to cover OSUP's share of the system's IHIS implementation and operating costs.

	2015	2014	2013
		(in thousands)	
Noncurrent Liabilities			
Third-party payor settlements	$ 44,168	$ 28,197	$ 12,466
Compensated absences	57,411	56,118	51,028
Net pension liability	554,513	-	-
Other noncurrent liabilities	3,170	4,796	6,347
Total Noncurrent Liabilities	**$ 659,262**	**$ 89,111**	**$ 69,841**

Third-party payor settlements consists of future settlements of current and previous years Medicare and Medicaid cost reports. The increase in third-party payor settlements in 2015 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. The addition of net pension liability in 2015 is related to the recognition of GASB 68. The Health System participates in a cost-sharing multiple-employer plan with the University and is required to recognize a proportionate share of the collective net pension liabilities of the plans. The increase in third-party payor settlements in 2014 reflects management's estimate for previous years Medicare and Medicaid cost report settlements. Compensated absences reflect the liability for earned but unused vacation and the potential payment of ill time upon an employee's termination or retirement. The increase in compensated absences from 2013 to 2015 is reflective of increased salaries and a larger workforce. The decrease in other noncurrent liabilities from 2013 to 2015 reflects the recognition of unearned revenue arising from OSU Physicians' rights to use the integrated medical record system.

Net Position

Net Position represents the residual interest in the Health System's assets after liabilities are deducted. The composition of the Health System's Net Position at June 30, 2015, 2014 and 2013 is summarized as follows:

	2015	2014	2013
		(in thousands)	
Net Position			
Net investment in capital assets	533,249	409,487	397,732
Restricted, nonexpendable	4,704	3,434	4,268
Restricted, expendable	26,849	47,730	37,668
Unrestricted	214,594	605,137	484,549
Net Position	**$ 779,396**	**$ 1,065,788**	**$ 924,217**

Net investment in capital assets, net of related debt are the Health System's capital assets net of accumulated depreciation and outstanding principal balances of debt obtained for acquiring, constructing, and improving those assets. Net Position is further categorized into Restricted-Nonexpendable, Restricted-Expendable, and Unrestricted. Please see the Notes to the Consolidated Financial Statements for further definition. The decrease in Net Position in 2015 is the cumulative effect of adjusting beginning net position related to the impact of GASB 68 and the recognition of net pension liabilities for the Health System.

Consolidated Statement of Revenues, Expenses, and Change in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position represents the Health System's results of operations. A comparison of revenues, expenses and other changes in net position for the years ended June 30, 2015, 2014, and 2013 is as follows:

	Fiscal Year June 30,		
	2015	2014	2013
Income and Change in Net Position		(in thousands)	
Operating Revenues	$ 2,368,395	$ 2,130,784	$ 2,029,057
Operating Expenses	2,010,195	1,896,336	1,814,343
Operating Income	358,200	234,448	214,714
Non-Operating Expenses	(28,066)	(5,349)	(8,441)
Income Before Other Changes in Net Position	330,134	229,099	206,273
Medical Center investments	$ (136,888)	$ (120,526)	$ (115,805)
Capital contributions	22,538	32,569	43,761
Additions to permanent endowments	7	429	485
Other Changes in Net Position	(114,343)	(87,528)	(71,559)
Increase in Net Position	215,791	141,571	134,714
Net Position - Beginning of Year, as reported	1,065,788	924,217	789,503
Cumulative effect of accounting change	(502,183)	-	-
Net Position - End of Year	$ 779,396	$ 1,065,788	$ 924,217

Operating Revenues

Total operating revenues grew $237.6 million, or 11.2% from the prior year. The increases from 2014 to 2015 is a result of increased volume related to the opening of the new James Cancer Hospital, an increase in the insured population and reduced self-pay, and Medicaid expansion. The increase from 2013 to 2014 reflects increased outpatient volume, with the remaining increase resulting from higher case intensity, strong payor mix, and increased rates from third party payors.

Approximately 96% of total operating revenues are from patient care activities. Other operating revenue is composed of items such as reference labs, cafeteria operations, rental agreements and other sources. To ensure appropriate access and education for outpatients, the James Cancer Hospital opened the Specialty Retail Pharmacy due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. To standardize care across the Neonatal Intensive Care Units in central Ohio, the Health System receives other revenue from Nationwide Children's Hospital management of the unit.

	Fiscal Year June 30,		
	2015	2014	2013
		(in thousands)	
Revenues			
Net patient service revenue less provision for bad debts	$ 2,264,139	$ 2,067,963	$ 1,966,892
Other Operating Revenues	104,256	62,821	62,165
Total Operating Revenue	**$ 2,368,395**	**$ 2,130,784**	**$ 2,029,057**

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

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

Medicare pays most inpatient and outpatient care on prospectively determined case rates. Additional payments are made to the Health System for medical education, caring for a disproportionate share of low income patients, certain transplant costs, and cases with unusually high cost of care. Additionally, The James is one of 11 cancer hospitals nationwide exempt from the inpatient prospective payment system. As such, Medicare reimburses The James reasonable inpatient costs of care (subject to limitation), determined through annual cost reports. Centers for Medicare and Medicaid Services (CMS) completed a special audit of these hospitals and retroactively updated the cost limitations for fiscal years after 2006. Medicare pays The James on prospectively determined outpatient rates, subject however to cost limits.

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2015. In the opinion of management, adequate provisions have been made for such settlements. The Health System records changes in estimates upon receiving interim or final settlements related to prior year cost reports.

Subject to income and asset levels, Medicaid pays for care under its Programs for Children, Families, and Pregnant Women; Aged Blind and Disabled program; and premium assistance for Medicare program. As with Medicare, Medicaid pays for inpatient and outpatient services on prospectively determined case rates, with 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 for the reasonable cost of inpatient and outpatient services provided to patients through September 30, 2014. Thereafter, payment is made on an Ohio Department of Medicaid determined basis with no cost report settlement.

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

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

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

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

Payor mix for the Health System has remained relatively consistent throughout the past several years. As discussed above, the increase in Medicaid and decrease in Self Pay and Other is due to healthcare reform and Medicaid expansion. The payor mix for the 2015, 2014 and 2013 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2015**	**2014**	**2013**
Managed Care	38.7%	38.8%	39.0%
Medicaid	21.9%	19.2%	17.8%
Medicare	36.4%	35.9%	35.5%
Self Pay and Other	3.0%	6.1%	7.7%
	100.0%	100.0%	100.0%

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2015, 2014, and 2013 is summarized as follows:

	Fiscal Year June 30,		
	2015	**2014**	**2013**
		(in thousands)	
Expenses			
Salaries and benefits	$ 1,052,084	$ 1,025,295	$ 977,074
Supplies and drugs	474,105	411,962	395,856
Purchased services	282,041	285,130	269,357
Depreciation	112,982	77,133	79,344
Pension (benefit)	(10,001)	-	-
Other expenses	98,984	96,816	92,712
Total Operating Expenses	**$ 2,010,195**	**$ 1,896,336**	**$ 1,814,343**

Operating expenses increased $113.9 million, or 6.0% from 2014 to 2015 reflecting the opening of the new James Cancer Hospital and increased cost of drugs for the Specialty Retail Pharmacy. Supplies experienced minimal increases due to solid expense management and purchasing initiatives. The increase in depreciation is related to the capitalization of MCE and the new James Cancer Hospital. The addition of pension (benefit) is related to the recognition of GASB 68 in fiscal 2015. Operating expenses increased $82.0 million, or 4.5% from 2013 to 2014 reflecting changes in activities and preparation for the opening of the new James Cancer Hospital and Critical Care tower.

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 2.4% from 2014 to 2015. The Health System employed 11,300 full time equivalent employees in 2015, 11,000 in 2014, and 10,500 in 2013. Adjusted for activities, supply cost increased 0.9% from 2014 to 2015 as aggressive contracting and strategic sourcing initiatives kept price increases down.

Non-Operating Revenue and Expenses

The Health System incurred a total of $42.9 million in interest cost in 2015, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. Of this amount, $28.9 million is recognized as a period expense in 2015. The remaining $14.0 million of interest is for the construction of the MCE, and is being capitalized as a cost of the asset. The Health System incurred a total of $42.9 million and $33.2 million in interest cost in 2014 and 2013, respectively, with the majority paid to the University to service debt incurred on behalf of the Health System. Of these amounts, $9.4 million and $10.6 million were recognized as period expense in each respective year. The remaining $33.5 million of interest in 2014 and $22.6 million in 2013 was for the construction of the MCE, and was capitalized as a cost of the asset each year.

Income Before Other Changes in Net Position

The Health System's Income before changes in Net Position for fiscal year 2015 totaled $330.1 million compared to $229.1 million in 2014 and $206.3 million in 2013. The increase in income has continued to strengthen the financial position of the Health System in support of patient care, the Medical Center Expansion project, and investments in research and educational programs.

Other Changes in Net Position

The Health System's other changes in net position for fiscal year 2015 includes Medical Center Investments of $136.9 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $120.5 million in 2014 and $115.8 million in 2013. Additionally, other changes in net position for fiscal year 2015 includes recognition of $20.9 million from HRSA compared to $23.3 million in 2014 and $23.1 million in 2013.

Consolidated Statement of Cash Flows

The Consolidated 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, 2015, 2014, and 2013 is summarized as follows:

	2015	2014	2013
		(in thousands)	
Cash flows			
Receipts from patients and third-party payors	$ 2,249,100	$ 2,051,747	$ 1,970,455
Payments to and on behalf of employees	(1,091,098)	(1,069,520)	(1,017,987)
Payments to vendors for supplies and services	(726,402)	(685,988)	(669,823)
Other operating activities	29,341	5,965	7,280
Net cash provided by operating activities	460,941	302,204	289,925
Cash flows from non capital financing activities	1,891	2,032	2,201
Cash flows from capital financing activities	(164,192)	(130,610)	(108,874)
Cash flows from investing activities	(196,389)	(120,461)	(149,490)
Net increase in cash	102,251	53,165	33,762
Cash at beginning of year	$ 241,130	$ 187,965	$ 154,203
Cash at end of year	$ 343,381	$ 241,130	$ 187,965

Net cash provided by operating activities totaled $460.9 million in 2015, an increase of $158.7 million compared to 2014. The Health System completed the Medical Center Expansion project, opened the new James Cancer Hospital, and had solid results from operations. Net cash used in capital financing

activities totaled $164.2 million in 2015, an increase of $33.6 million compared to 2014 as a result of the Health System's debt service to support Medical Center Expansion. Net cash used in investing activities totaled $196.4 million, an increase of $75.9 million as a result of funds used to reinvest into research, education, and programs at the Medical Center.

Future Direction

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

The ambulatory strategy continues to significantly expand its presence in the community by breaking ground for the future sites of the Upper Arlington outpatient facility in Kingsdale and The Jameson Crane Sports Medicine Institute. OSU Wexner Medical Center plans to expand its Neurological Institute with the addition of a new Brain and Spine Hospital. 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 Brain and Spine Hospital, which will be part of Ohio State's Neurological Institute, will provide advanced clinical services and innovative research to improve the diagnosis, treatment and cure of neurological diseases.

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. We will continue to play a key role in supporting the Medical Center and its status as a leading academic medical center and stay committed to the vision of working as a team, shaping the future of medicine by creating, disseminating and applying new knowledge, and by personalizing health care to meet the needs of each individual.

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

	June 30, 2015	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	$ 343,381	$ 241,130
Patient accounts receivable, net of estimated uncollectibles of $73,310 in 2015 and $69,756 in 2014	299,338	262,548
Pledge receivables, net	2,262	3,893
Other receivables	44,223	22,398
Inventory	22,503	21,365
Prepaid expenses and other current assets	3,915	2,634
Total current assets	715,622	553,968
Assets whose use is limited	255,029	284,044
Investment in subsidiaries	11,803	12,851
Capital assets, net	1,420,127	1,294,311
Long term pledge receivables, net	9,882	11,918
Long term receivables and other noncurrent assets	13,921	11,785
Total noncurrent assets	1,710,762	1,614,909
Deferred outflows-pension	74,024	-
Total assets and deferred outflows	$ 2,500,408	$ 2,168,877
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 114,576	$ 97,967
Accrued salaries and benefits	39,960	31,187
Third-party payor settlements	8,643	-
Current portion of long-term debt	47,646	44,273
Total current liabilities	210,825	173,427
Long-term debt less current portion	839,232	840,551
Compensated absences	57,411	56,118
Third-party payor settlements less current portion	44,168	28,197
Net pension liability	554,513	-
Other noncurrent liabilities	3,170	4,796
Total noncurrent liabilities	1,498,494	929,662
Deferred inflows-pension	11,693	-
Total liabilities and deferred inflows	1,721,012	1,103,089
Net Position		
Net investment in capital assets	533,249	409,487
Restricted:		
Nonexpendable	4,704	3,434
Expendable	26,849	47,730
Unrestricted	214,594	605,137
Total net position	779,396	1,065,788
Total liabilities, deferred inflows, and net position	$ 2,500,408	$ 2,168,877

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, 2015	Year Ended June 30, 2014
Operating Revenues		
Net patient service revenue	$ 2,397,665	$ 2,213,839
Provision for bad debts	(133,526)	(145,876)
Net patient service revenue less provision for bad debts	2,264,139	2,067,963
Other revenue	104,256	62,821
Total Operating Revenue	2,368,395	2,130,784
Operating Expenses		
Salaries and benefits	1,052,084	1,025,295
Supplies and drugs	474,105	411,962
Purchased services	282,041	285,130
Depreciation	112,982	77,133
Pension (benefit)	(10,001)	-
Other expenses	98,984	96,816
Total Expenses	2,010,195	1,896,336
Operating Income	358,200	234,448
Non-Operating Revenues (Expenses)		
Interest (expense)	(28,856)	(9,442)
Income from investments	1,869	1,532
Gifts	375	1,347
Other non-operating (expenses) revenues	(1,454)	1,214
Total Non-Operating (Expenses)	(28,066)	(5,349)
Income Before Other Changes in Net Position	330,134	229,099
Other Changes in Net Position		
Medical Center investments	(136,888)	(120,526)
Capital contributions	22,538	32,569
Additions to permanent endowments	7	429
Total Other Changes in Net Position	(114,343)	(87,528)
Increase in Net Position	215,791	141,571
Net Position - Beginning of Year, as reported	1,065,788	924,217
Cumulative effect of accounting change	(502,183)	-
Net Position - End of Year	$ 779,396	$ 1,065,788

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, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 2,249,100	$ 2,051,747
Other receipts	91,508	65,356
Payments to and on behalf of employees	(1,091,098)	(1,069,520)
Payments to vendors for supplies and services	(726,402)	(685,988)
Payments on other expenses	(62,167)	(59,391)
Net cash provided by operating activities	460,941	302,204
Cash flows from non-capital financing activities		
Gift receipts for current use	1,884	1,603
Additions to permanent endowments	7	429
Net cash provided by non-capital financing activities	1,891	2,032
Cash flows from capital financing activities		
Proceeds from issuance of long-term debt	-	-
Proceeds from sale of capital assets	-	4,389
Purchase of capital assets	(79,035)	(54,522)
Repayments of long-term debt and capital lease obligations	(46,078)	(49,073)
Cash paid for interest	(42,887)	(42,256)
Payments to improve capital assets	-	(1,406)
Contributions for property acquisitions	3,808	12,258
Net cash used in capital financing activities	(164,192)	(130,610)
Cash flows from investing activities		
Medical Center investments	(136,888)	(120,526)
Deposit into assets whose use is limited	(59,494)	494
Purchase of long term investments	(7)	(429)
Net cash used in investing activities	(196,389)	(120,461)
Net increase in cash and cash equivalents	102,251	53,165
Cash and cash equivalents at beginning of year	241,130	187,965
Cash and cash equivalents at end of year	$ 343,381	$ 241,130
Reconciliation of operating income to net cash provided in operating activities		
Operating Income	358,200	234,448
Adjustments to reconcile operating income to net cash provided by operations:		
Pension (benefit)	(10,001)	-
Depreciation	112,982	77,133
Changes in operating assets and liabilities:		
Patient accounts receivable	(36,790)	(23,952)
Other receivables	(23,242)	(7,976)
Inventories	(1,138)	(2,042)
Prepaid expenses and other assets	(1,281)	391
Accounts payable/accrued expenses	29,158	8,422
Accrued salaries and benefits	8,774	(949)
Third party payor settlements	24,614	13,190
Compensated absences	1,292	5,090
Other liabilities	(1,626)	(1,551)
Net cash provided (used) by operating activities	460,941	302,204

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

NOTE 1 – ORGANIZATION

The Ohio State University Wexner Medical Center Health System (the "Health System" or the “System”) operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of departments representing the financial activities of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and 14 primary care locations. As a series of departments of The Ohio State University (the "University"), the System is included in the consolidated financial statements of the University and is exempt from income taxes under Internal Revenue Code Section 115.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The preparation of these consolidated financial statements is in conformity with generally accepted accounting principles, accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

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

New Accounting Pronouncements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement 72 expands the guidance on valuation of university investments, particularly alternative investments. It closely follows FASB’s valuation approach and disclosure requirements, including the categorization of investment fair value measurements into Levels 1, 2 and 3. Statement 72 could result in the change in the carrying value of certain investments and will require additional disclosures, including a schedule of investments by type and level and additional details on investments that calculate Net Asset Value (NAV) per share. It is effective for periods beginning after June 15, 2015 (FY2016).

Health System management is currently assessing the impact that implementation of GASB Statement 72 will have on the consolidated financial statements.

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

Health System management is currently assessing the impact that implementation of GASB Statement 73 will have on the consolidated financial statements.

In June 2015, the GASB issued Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statements 74 and 75 establish new accounting and reporting standards for other postemployment benefits (OPEB), such as health insurance provided to retirees. Under the new standards, governments that participate in OPEB plans will be required to report in their statement of net position a net OPEB liability, which is the difference between the total OPEB liability and the assets set aside to pay OPEB. Statement 74, which applies to plans (such as OPERS and STRS-Ohio), is effective for periods beginning after June 15, 2016 (FY2017). Statement 75, which applies to plan participants (including the Health System), is effective for periods beginning after June 15, 2017(FY2018).

Health System management is currently assessing the impact that implementation of GASB Statements 74 and 75 will have on the consolidated financial statements.

In June 2015, the GASB issued Statement No. 76*, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Statement 76 reduces the GAAP hierarchy for state and local governments to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category consists of GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is specifically cleared by the GASB. The new standard is effective for periods beginning after June 15, 2015 (FY2016).

Health System management is currently assessing the impact that implementation of GASB Statement 76 will have on the consolidated financial statements.

Implementation of GASB Statement No. 68

In FY2015, the Health System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. A proportionate share of the University's net pension liabilities have been allocated to the Health System, based on retirement plan contributions for Health System employees. The cumulative effect of adopting GASB 68 was a $502.2 million reduction in the Health System's net position as of July 1, 2014. Balances reported for the year ended June 30, 2014 have not been restated due to limitations on the information available from the retirement systems. Additional information regarding net pension liabilities, related deferrals and pension expense is provided in Note 7.

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 consolidated financial statements include the accounts of the Health System and all wholly owned subsidiaries and controlled entities. All material inter-company transactions and account balances have been eliminated in consolidating the financial statements.

Net Position:

Net position is categorized as:

- 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 $343,381 at June 30, 2015 and $241,130 at June 30, 2014 consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts held at the University. Health System cash is pooled with other operating units within the University and earns interest income at rates established through the University's internal bank program.

Patient Accounts Receivable and Estimated Payables to Third-Party Payors:

A substantial portion of the System's revenue is received under contractual arrangements with Medicare and Medicaid. Payments from these payors are based on a combination of prospectively determined rates and retrospectively settled amounts. Many of the payment calculations require the use of estimates. Final settlement of the amount due to the System or payable to the payors are subject to the laws and regulations governing the federal and state programs and post-payment audits, which may result in further adjustments by the payors. Provisions for anticipated adjustments have been made in the financial statements. Certain adjustments made by third parties in previously settled cost reports are being appealed. Recoveries are recognized in the financial statements as adjustments to prior year settlements at the time the appeals are resolved.

The Health System also enters into contractual relationships with managed care organizations and other third party payors to provide services to plan beneficiaries. These relationships may include services provided to Medicare beneficiaries under Medicare Advantage programs and to Medicaid beneficiaries under Medicaid Managed Care programs. Many of the agreements with Medicare, Medicaid, and third-party payors provide for payment at amounts different from established prices. A summary of the significant payment arrangements with major third-party payors follows:

Medicare:

The Medicare program reimburses the System for services provided to its beneficiaries. The Ohio State University Hospital, The Richard M. Ross Heart Hospital, and The Ohio State University Hospital East reimbursement for inpatient services are based on a prospective payment system (PPS) that utilizes Medicare Severity Diagnostic Related Groups (MS-DRGs). These payment rates vary according to the patient classification system established by the Center for Medicare and Medicaid Services (CMS). OSU Harding is paid under PPS for Medicare Inpatient Psychiatric facilities. Medicare reimburses the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute on a Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) basis, subject to certain reasonable cost limits. Outpatient services for all business units are paid prospectively on pre-determined fee schedules or Ambulatory Payment Classifications (APCs). Costs of Graduate Medical Education, Paramedical training costs, and Solid Organ Transplant costs are reimbursed outside of MS-DRGs on a combination of prospective and cost based methodologies. Reimbursement for these items is made at a tentative rate with a final settlement determined after submission of annual cost reports by the Health System, and audits thereof, by Medicare.

Medicaid:

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

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

Other:

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

Settlements:

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2015. In the opinion of management, adequate provisions have been made for such settlements. The Health System records changes in estimates upon receiving interim or final settlements related to prior year cost reports. The most recent settled cost report for The Ohio State University Hospital for Medicare was for fiscal year ended June 30, 2009 and June 30, 2008 for Medicaid. The most recent settled cost report for the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute for Medicare was fiscal year ended June 30, 2011 and June 30, 2008 for Medicaid.

Contributions and Pledges Receivable:

The University receives pledges and bequests of financial support from corporations, foundations and individuals, including amounts relating to the capital expansion and patient care activities of the Health System. Contributions and pledges receivable are recorded in the Health System's consolidated financial statements. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. Property contributions received in fiscal years 2015 and 2014 totaled $402 and $7,234 respectively and are recorded in capital contributions within Other Changes in Net Position. The $402 in 2015 and $7,234 in 2014 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 $1,576 at June 30, 2015 and $486 at June 30, 2014. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

Inventories:

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

Assets Whose Use is Limited:

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

These funds are invested in The Ohio State University investment pool and are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Health System receives interest based on rates established by The University's internal bank program.

The University's investment policy authorizes the University to invest non-endowment funds in the following investments:

- Obligations of the US Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds

Assets whose use is limited consisted of the following at June 30, 2015 and 2014:

	2015	2014
	(in thousands)	
Funds held for capital replacement	$ 86,998	$ 86,619
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
University held funds	120,000	149,394
Total	**$ 255,029**	**$ 284,044**

Endowment Funds:

All University endowments are invested in the University's long term investment pool and are invested and administered according to University policy. Certain endowment fund assets, namely funds relating to the Health System capital expansion and patient care activities, have been recorded in the Health System's consolidated financial statements beginning in fiscal year 2012 based upon the concurrent determination that the underlying activities are to be recorded by the Health System. Each named Health System fund is assigned a number of shares in the University long term investment pool based on the value of the gifts, income to principal transfers, or transfers of operating funds to the named fund. Annual distributions from the funds are computed using the share method of accounting for pooled investments. Health System endowment fund assets are included in Long term receivables and other assets on the Statement of Net Position, and totaled $4,704 and $4,698 at June 30, 2015 and 2014, respectively.

Investments in Subsidiaries:

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

Capital Assets:

Capital asset acquisitions are recorded at cost or at fair value at date of donation. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. The life of buildings range from 5-40 years, for equipment the range is 2-20 years, and for leasehold improvements the range is 3-16 years. The Health System uses guidelines established by the American Hospital Association to assign estimated useful lives to fixed equipment and inventoried equipment. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Long-lived assets are evaluated for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from future estimated cash flows. Fair value estimates are derived from independent appraisals, established market values of comparable assets or internal calculations of future estimated cash flows.

Net Patient Service Revenues:

Patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated and retroactive settlements. 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, 2015 and 2014 are summarized as follows:

(in thousands)

	2015	2014
Total patient service revenue	$ 7,218,822	$ 6,646,967
Contractual allowances and other discounts	(4,821,157)	(4,433,128)
Provision for bad debts	(133,526)	(145,876)
Net patient service revenue	**$ 2,264,139**	**$ 2,067,963**

Additionally, net patient service revenue amounts recognized from major payor sources (based on primary payor) for fiscal 2015 and 2014, respectively, is as follows:

2015	Third Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and other discounts)	$ 2,366,578	$ 31,087	$ 2,397,665
2014			
Patient service revenue (net of contractual allowances and other discounts)	$ 2,135,563	$ 78,276	$ 2,213,839

Charity Care:

The Health System provides medical care to all patients regardless of their ability to pay. In addition, the Health System provides services intended to benefit the poor and under-served, the uninsured and the under-insured. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues or patient accounts receivable.

The total cost of charity care provided is determined using a ratio of costs to gross charges calculation methodology. The total cost of charity care is reduced by support received under the Health Care Assurance Program (HCAP) to arrive at net cost of charity care. HCAP is administered by the State of Ohio to help hospitals cover a portion of the costs of providing charity care. The decrease in the net cost of charity care from 2014 to 2015 is related to Medicaid expansion in the State of Ohio. The cost of providing charity for the fiscal years 2015 and 2014 are as follows:

	2015	2014
Total cost of charity care	$ 25,632	$ 53,319
Less Health Care Assurance Program support	(12,993)	(20,710)
Net cost of charity care	**$ 12,639**	**$ 32,609**

Estimated Medical Liability Costs

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

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 is summarized as follows:

(in thousands)

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

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

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

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

NOTE 4 – LONG-TERM DEBT

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

(in thousands)

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

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

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

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

(in thousands)

The $248,978 additions to debt from the University in fiscal year 2014 were used to fund Medical Center Expansion construction in progress. Of the $18,445 reductions incurred for the 2013 bonds, $4,877 was related to FY13 principal payments.

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

University Bonds

The University has issued general receipts bonds, and has allocated a portion of those to the Health System with no premium or discount on the debt. Since 2008 the purpose of this debt has been the continued funding of the Medical Center Expansion project. During fiscal year 2015, the Health System borrowed an additional $47,735. The 2013 MOUs included a provision to borrow $38,042 in fiscal year 2015 for 18 years at an interest rate of 4.75%. The Health System was allocated an additional $9,693 in fiscal 2015 related to the 2011 BRT Build Out bonds for 17 years at an interest rate of 4.75% as a result of a favorable construction variance for the three floor build out of the Biomedical Research Tower. Bond funding prior to 2008 was acquired for various hospital construction and renovation projects.

Other Financing

During 2015, the Health System collaborated with the City of New Albany, Healthy New Albany, and Integrated Wellness Partners (IWP) to create a health and wellness ecosystem in New Albany, Ohio. The Health System borrowed $1,200 for design and build out costs to be repaid in twenty-eight quarterly installments at an interest rate of 4.38%.

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

	Principal	Interest	Total
2016	$ 46,599	$ 40,791	$ 87,390
2017	46,904	38,665	85,569
2018	47,973	36,471	84,445
2019	48,998	34,208	83,206
2020	50,839	31,892	82,731
2021-2025	275,987	121,951	397,939
2026-2030	290,884	54,801	345,685
2031-2032	78,693	3,586	82,279
	$ 886,878	$ 362,365	$ 1,249,243

NOTE 5 – OPERATING LEASES

The Health System leases various buildings and office space under operating lease agreements. These facilities are not recorded as assets on the Statement of Net Position. Operating leases related to equipment are not significant. Total operating lease and rental expense for fiscal years 2015 and 2014 were $18,008 and $19,347, 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, 2015, that have initial or remaining lease terms in excess of one year:

(in thousands)

2016	$ 12,043
2017	11,698
2018	11,350
2019	10,175
2020	9,319
2021-2025	42,778
2026-2030	41,646
2031-2035	6,284
	$ 145,293

NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY

On July 1, 2003, the Health System joined with OSU Physicians (OSUP), a component unit of The Ohio State University, to establish a self-insurance fund for professional and patient general liability claims (Fund II), covering the hospitals as well as the employed physicians of OSUP. Previous to July 1, 2003, the Health System was self-insured through the University's established self-insurance fund for professional and general liability (Fund I). The assets and liabilities of both funds are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2015. The medical liability expense is recorded as period expenses for the Health System and totaled a benefit of $767 and an expense of $3,525 for fiscal year 2015 and fiscal year 2014, respectively. The Health System received an $813 refund in 2015 as a result of the strong performance of the program.

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

Oval Limited assets and liabilities are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expenses and totaled $4,815 in fiscal year 2015 and $5,465 in fiscal year 2014.

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

NOTE 7 - RETIREMENT PLANS

Health System employees, as part of The Ohio State University, are covered by one of three retirement systems. The university faculty is covered by the State Teachers Retirement System of Ohio (STRS Ohio). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

(in thousands)

STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. These plans are discussed in greater detail in the following sections.

Defined Benefit Plans

STRS Ohio and OPERS offer statewide cost-sharing multiple-employer defined benefit pension plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. Both STRS Ohio and OPERS issue separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the two organizations.

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

OPERS, Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org/investments/cafr.shtml

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized 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 systems and the Health System's proportionate share of these net pension liabilities as of June 30, 2015 are as follows:

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

(in thousands)

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

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 56	$ -	$ 56
Net difference between projected and actual earnings on pension plan investments	-	29,627	29,627
Employer contributions subsequent to the measurement date	359	43,982	44,341
Total	**$ 415**	**$ 73,609**	**$ 74,024**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 10,623	$ 10,623
Net difference between projected and actual earnings on pension plan investments	1,070	-	1,070
Total	**$ 1,070**	**$ 10,623**	**$ 11,693**

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
2016	$ 106	$ 46,805	$ 46,911
2017	(254)	2,824	2,570
2018	(254)	6,548	6,294
2019	(254)	7,296	7,042
2020	-	(111)	(111)
2021 and Thereafter	-	(377)	(377)
Total	**$ (656)**	**$ 62,985**	**$ 62,329**

(in thousands)

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.

	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 Aug. 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective Aug. 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 and five years of service on Aug. 1, 2026.	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.	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.

(in thousands)

	STRS-Ohio	OPERS
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, 2014, the employer rate was 14% and the member rate was 11% of covered payroll. The statutory employer rate for fiscal 2015 and subsequent years is 14%. The statutory member contribution rate increased by one percent July 1, 2014, and will be increased one percent each year until it reaches 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 2014, 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, 2014	December 31, 2014
Actuarial Assumptions	**Valuation Date:** July 1, 2014 **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	**Valuation Date:** December 31, 2014 **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 8.00% **Inflation:** 3.75% **Projected Salary Increases:** 4.25% - 10.05% **Cost-of-Living Adjustments:** 3.00% 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-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.
Date of Last Experience Study	July 1, 2012	December 31, 2010

(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 2014 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>2.31%</td></tr>
<tr><td>Domestic Equity</td><td>19.9%</td><td>5.84%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>4.25%</td></tr>
<tr><td>Private Equity</td><td>10.0%</td><td>9.25%</td></tr>
<tr><td>International Equity</td><td>19.1%</td><td>7.40%</td></tr>
<tr><td>Other Investments</td><td>18.0%</td><td>4.59%</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, 2014. 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, 2014. 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, 2014.</td><td>The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined 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 (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
	$ 8,278	$ 5,783	$ 3,672	$ 1,012,935	$ 548,730	$ 157,823

Defined Contribution Plans

ARP is a defined contribution pension plan. Full-time administrative and professional staff and faculty may choose enrollment in ARP in lieu of OPERS or STRS Ohio. Classified civil service employees hired on or after August 1, 2005 are also eligible to participate in ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement health care benefits.

Combined Plans

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self- directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits.

OPERS also offers a combined plan. This is a cost-sharing multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits. OPERS provides retirement, disability, survivor and post-retirement health benefits to qualifying members of the combined plan.

Summary of Employer Pension Expense

Total pension expense for the year ended June 30, 2015, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below. Pension (benefit) is reported on the Statement of Revenues, Expenses and Other Changes in Net Position.

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

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, 2014, STRS Ohio allocated employer contributions equal to 1.0% of covered payroll 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 2014, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.

NOTE 8 – COMPENSATED ABSENCES

Health System employees earn vacation and sick leave on a monthly basis. Classified civil service employees may accrue vacation benefits up to a maximum of three years credit. Administrative and professional staff and faculty may accrue vacation benefits up to a maximum of 240 hours. For all classes of employees, any earned but unused vacation benefit is payable upon termination.

Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the University with ten or more years of service with the State. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 240 hours.

The Health System accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "termination payment method" which is set forth in Appendix C, Example 4 of the GASB Statement No. 16, *Accounting for Compensated Absences*. Under the termination method, the Health System calculates a ratio, Sick Leave Termination Cost per Year Worked, that is based on the Health System's actual historical experience of sick leave payouts to terminated employees. This ratio is then applied to the total years-of-service for current employees.

Certain employees (primarily classified civic service) may receive compensatory time in lieu of overtime pay. Any unused compensatory time must be paid to the employee at the time of termination or retirement.

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

NOTE 9 – OTHER NONCURRENT LIABILITIES

Other noncurrent liability activity for the years ending June 30, 2015 and 2014 is summarized as follows:

(in thousands)

	2015			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 56,118	$ 5,691	$ 4,398	$ 57,411
Third party payor settlements	28,197	57,377	41,406	44,168
Other noncurrent liabilities	4,796	-	1,626	3,170
	89,111	63,068	47,430	104,749
Less current portion third-party payor settlements	-	8,643	-	8,643
Net other noncurrent liabilities	$ 89,111	$ 54,425	$ 47,430	$ 96,106

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

The increase in compensated absences from 2014 to 2015 is reflective of increased salaries and a larger workforce. The increase in third-party payor settlements in 2015 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. The decrease in other noncurrent liabilities from 2014 to 2015 reflects the recognition of unearned revenue arising from OSU Physicians' rights to use the integrated medical record system.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of hospital accounts receivable from patients and third party payors at June 30, 2015 and 2014 is summarized as follows:

Payor - receivables	2015	2014
Medicare	23%	22%
Medicaid	18%	19%
Managed Care	53%	54%
Self Pay	6%	5%
Total	100%	100%

NOTE 11 – RELATED PARTY TRANSACTIONS

The Ohio State University

The Health System purchases employee benefits, utilities, mail services, and construction project management services from the University. Additionally, the Health System pays university overhead, which includes such services as payroll processing, public safety, auditing, and insurance. University overhead charged to the Health System is recorded in Other expenses and was $49,901 and $48,452 for the years ended June 30, 2015 and 2014, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected $84,282 for healthcare services in 2015 and $85,192 in 2014 and is reflected in Net patient service revenue.

OSU Physicians

The Health System leases the IDX patient management, accounting and billing software and related hardware to OSU Physicians, Inc. (OSUP). In conjunction with the implementation of an integrated health information system, the Health System has recorded $3,046 and $464 in other receivables as of June 30, 2015 and 2014, respectively and $4,036 and $6,538 in long term receivables as of June 30, 2015 and 2014 from OSUP to cover OSUP's share of the system's implementation and operating costs.

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 $136,888 for fiscal year 2015 and $120,526 for fiscal year 2014 and are reflected as Other Changes in Net Position.

Oval

The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are consolidated in the University's financial statements, but are not included in the Health System consolidated financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense and totaled $4,815 for fiscal year 2015 and $5,465 for fiscal year 2014. See NOTE 6 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

MedFlight

The Health System has an investment interest in a community based air ambulance/intensive care transport which is recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of $8,799 for fiscal year 2015 and $10,303 for fiscal year 2014.

OSU Mount Carmel Health Alliance

The Health System has a joint venture with Mount Carmel with partial ownership in Madison County Hospital which are recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of $2,920 for fiscal year 2015 and $2,457 for fiscal year 2014.

NOTE 12 – CONTINGENCIES

The Health System is a party in a number of legal actions. Management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the Health System's future financial position, results from operations, or cash flows.

NOTE 13 - COMPLIANCE

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

The estimated Medicare and Medicaid cost report settlements recorded at June 30, 2015 could differ from actual settlements based upon results of the cost report audits discussed in Note 2. Changes in Medicare and Medicaid programs and the reduction of funding levels could have a material adverse impact on the Health System.

NOTE 14 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through October 30, 2015, the date the consolidated financial statements were issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

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

Schedule of Proportionate Share of the Net Pension Liability

	2015	
	STRS-Ohio	OPERS
Health System proportion of the collective net pension liability	0.024%	4.564%
Health System proportionate share of the net pension liability	$ 5,783	$ 548,730
Health System covered-employee payroll	$ 2,061	$ 616,496
Health System proportionate share of the net pension liability as a percentage of its covered-employee payroll	281%	89%
Plan fiduciary net position as a percentage of the total pension liability	74.7%	86.5%
Schedule of University Contributions		
Contractually required contribution	$ 310	$ 88,834
Contributions in relation to the contractually required contribution	$ 310	$ 88,834
Contribution deficiency (excess)	$ -	$ -
Health System covered-employee payroll	$ 2,001	$ 630,751
Contributions as a percentage of covered-employee payroll	15.5%	14.1%

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

To the Board of Trustees of
The Ohio State University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, as of and for the year ended June 30, 2015, appearing on pages 15 to 38, which consist of the consolidated statement of net position, the related consolidated statements of revenues, expenses and other changes in net position and of cash flows, which collectively comprise the Health System's basic financial statements, and have issued our report thereon dated October 30, 2015, which included a matter of emphasis paragraph concerning the Health System's adoption of new accounting guidance related to the manner in which it accounts for pensions.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

PricewaterhouseCoopers LLP
Columbus, Ohio
October 30, 2015

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 24, 2015

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