THE OHIO STATE UNIVERSITY
WEXNER MEDICAL CENTER
HEALTH SYSTEM

(A SERIES OF DEPARTMENTS OF THE OHIO STATE UNIVERSITY)

Financial Statements as of and for the Years Ended June 30, 2018 and 2017, Report of Independent Auditors, and Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters

Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July, 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

November 2, 2018

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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

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Report of Independent Auditors

To the Board of Trustees of
The Ohio State University

We have audited the accompanying financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, appearing on pages 17 to 47, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Health System at June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2018, 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 financial statements, the Company changed the manner in which it accounts for postemployment benefits other than pensions in 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

The accompanying management's discussion and analysis on pages 3 through 16 and the required supplementary information on GASB 68 pension liabilities and GASB 75 accounting and financial reporting for post-employment benefits other than pensions on pages 48 and 49 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's 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 12, 2018

Introduction

The following discussion and analysis provides an overview of the financial position and the activities of The Ohio State University Wexner Medical Center Health System (the "Health System") as of and for the years ended June 30, 2018, 2017, and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

About The Ohio State University Wexner Medical Center Health System

The Ohio State University Wexner Medical Center ("the Medical Center") is one of the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of 7 hospitals and a network of ambulatory care locations. The Health System provides care across the spectrum from primary care to quaternary specialized care. Key clinical care locations and facilities of the Health System include:

- ***University Hospital*:** the Medical Center's full-service tertiary care facility that provides care to patients throughout the region.
- ***Arthur G. James Cancer Hospital and Solove Research Institute ("The James"):*** one of only 49 National Cancer Institute-designated Comprehensive Cancer Centers.
- ***Richard M. Ross Heart Hospital ("The Ross"):*** The Ross is the only hospital in central Ohio nationally ranked in cardiology and heart surgery by US News and World Report.
- ***OSU Harding Hospital:*** provides the most comprehensive behavioral healthcare services in central Ohio.
- ***University Hospital East:*** a full service community hospital.
- ***Dodd Hall:*** a 60-bed inpatient rehabilitation facility.
- ***Brain and Spine Hospital:*** provides comprehensive neuroscience care to improve prevention, detection and treatment of brain and spine disorders.
- ***Ambulatory Services:*** a network of community-based primary and subspecialty care facilities.

The Health System provided services to approximately 64,500 inpatients and 1,806,000 outpatients during fiscal year 2018, 61,700 inpatients and 1,764,000 outpatients during fiscal year 2017, and 59,300 inpatients and 1,724,000 outpatients during fiscal year 2016.

The Health System operates 1,400 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. The Wexner Medical Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 26 consecutive years as one of "America's Best Hospitals" with 10 nationally ranked specialties and is Central Ohio's "Best Hosptial." The Medical Center's ranked specialties include Cancer, Cardiology & Heart Surgery, Diabetes & Endocrinology, Ear, Nose & Throat, Geriatrics, Nephrology, Neurology & Neurosurgery, Pulmonology, Orthopedics and Urology. Additionally, the Medical Center has provided more than 50 years of lifesaving organ transplants and is one of the nation's busiest kidney transplant centers. The Wexner Medical Center was selected by Becker Hospital Review for its 2018 list of "100 Great Hospitals in America" for excellence in patient care, clinical research, and leadership in innovations. The Health System is proud to be the first health system in central Ohio to have a hospital achieve Magnet Recognition, one of the highest honors awarded for nursing excellence. The Ross Heart Hospital, University Hospital, and The James are all designated Magnet hospitals. The Health System works with a dedicated physician group that provides exceptional patient care. Physicians at the Wexner Medical Center were selected by Castle Connolly because they are among the very best in their specialties.

In fiscal 2018, the University commenced Phase 1of the Cannon Drive Relocation project. This project is estimated to cost $52.0 million and will be located between King Avenue and John Herrick Drive. The Cannon Drive Relocation project will straighten and elevate the road out of the flood plain, create twelve acres of developable land, and provide flood protection to all areas on the western edge of main campus. A significant portion of the newly developable land will be used for the site of a new hospital tower. The City of Columbus has provided $15.3 million of the Phase I project funding. The remainder of the funding

will be provided by the Health System and other University departments. University leadership determined a funding split based on the insurable values of the buildings that will be protected by the Cannon Drive improvements. Under this formula, the Health System will fund 61.6% of the non-grant funded project costs. Health System and University management determined that the use of insurable values provides a reasonable approximation of the service capacity and benefits to be provided by the Phase I improvements to the Health System and other University units. Accordingly, the Health System will capitalize 61.6% of the total Phase I project costs as capital assets in its stand-alone financial reports.

In fiscal 2017, the Health System continued its expansion strategy by opening Outpatient Care Upper Arlington, The Jameson Crane Sports Medicine Institute, and the Brain and Spine Hospital. The Outpatient Care Upper Arlington facility provides high quality and convenient health services from disease prevention and primary care to highly specialized women's health services and beyond. The Jameson Crane Sports Medicine Institute is the Midwest's largest and most advanced sports medicine facility and is the home of innovation and discovery in helping people improve their athletic performance, recover from injury, and prevent future injuries. The new state of the art complex integrates research, teaching, clinical care, and performance training in one location. The Brain and Spine Hospital is home to central Ohio's top-ranked Neurology and Neurosurgery program. The new Brain and Spine Hospital combines the talent and resources of doctors and researchers at the Wexner Medical Center's Neurological Institute in one comprehensive hospital. It includes specialized units for stroke care, neurotrauma, traumatic brain injuries, spinal cord injuries, spine surgery, epilepsy, chronic pain, acute rehabilitation, and neurosurgery.

Operating and Financial Highlights

	Fiscal Year June 30,		
	2018	2017	2016
Selected Statistics			
Admissions	64,529	61,701	59,358
Avg. Daily Census	1,162	1,109	1,056
Outpatient Visits	1,806,004	1,763,707	1,724,176
Emergency Visits	130,916	131,439	130,680
Observation Patients	15,977	16,075	15,088
Transplants	439	445	298
Surgeries	44,888	44,090	41,852

In 2018, the Health System was leading the way with the Medical Center strategy of being "future-focused and driven to improve health in Ohio and across the world through innovation in research, education and patient care" and continued its financial excellence due to increased demand for our services combined with the persistent focus on improving efficiency. Inpatient admissions increased 4.6% compared to the prior year while inpatient beds increased 5.4% compared to the prior year. Outpatient visits increased 2.4% from the previous year experiencing significant growth in the Health System's Ambulatory care locations. The Jameson Crane Sports Medicine Institute and Upper Arlington outpatient facility mixed with continued success in existing programs achieved growth of 6.0% over the prior year for Ambulatory Services.

The Health System experienced higher surgical volumes in 2018 with nearly 2.0% growth over the prior year. Service lines contributing to growth in surgical volumes in 2018 were Cancer, Neurosurgery, Open Heart, Ophthalmology, Thoracic, and Trauma/Critical Care/Burn. The growth in surgical volumes contributed to increases in admissions, revenues, and outpatient volumes.

In 2015, The Ohio State University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 requires governmental employers participating in

defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. In 2018, The Ohio State University implemented a related accounting standard, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 requires employers participating in other post-employment benefit (OPEB) plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. OPEB benefits consist primarily of post-retirement healthcare. The Health System participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio, and is required to record a liability for its proportionate share of the net pension and OPEB liabilities of the retirement systems.

In 2018, The Health System's share of these net pension liabilities decreased $316.5 million, to $793.5 million at June 30, 2018, reflecting reductions in net pension liabilities for both retirement systems. Total net pension liabilities decreased at OPERS primarily due to increases in fiduciary net position. The OPERS defined benefit investment portfolio had a 16.62% return in calendar year 2017. Total net pension liabilities decreased at STRS-Ohio due to a combination of increases in fiduciary net position (primarily due to a 14.29% investment return in fiscal year 2017) and a reduction in the system's total pension liabilities (primarily due to a reduction in annual cost-of-living adjustments to 0%). Net deferrals associated with pensions decreased $433.7 million and totaled $(47.0) million in deferrals at June 30, 2018. These deferrals will be recognized as pension expense in future periods.

At June 30, 2018, the Health System's share of OPERS and STRS-Ohio net OPEB liabilities was $568.9 million. In addition, the Health System recognized deferred outflows and deferred inflows related to OPEB of $41.9 million and $(42.4) million, respectively. The cumulative effect of adopting GASB Statement No. 75 was a $528.5 million reduction in the Health System's net position as of July 1, 2017.

Total pension and OPEB expense recognized by the Health System was $279.0 million in 2018. Total pension and OPEB expense includes $120.8 million of employer contributions and $158.2 million in GASB 68 and GASB 75 accruals.

It should be noted that, in Ohio, employer contributions to the state's cost-sharing multi-employer retirement systems are established by statute. These contributions, which are payable to the retirement systems one month in arrears, constitute the full legal claim on the Health System for pension and OPEB funding. Although the liabilities recognized under GASB 68 and GASB 75 meet the GASB's definition of a liability in its conceptual framework for accounting standards, they do not represent legal claims on the Health System's resources, and there are no cash flows associated with the recognition of net pension and OPEB liabilities, deferrals and related expense.

Income Before Other Changes in Net Position was $270.9 million in 2018 compared to $215.0 million in 2017. Pension expense was $117.3 million in 2018 compared to $168.1 million in 2017 reflecting annual accounting under GASB 68. OPEB expense was $40.9 million in 2018 reflecting the implementation of GASB 75. Income Before Other Changes in Net Position for clinical activities was $430.4 million in 2018 compared to $383.2 million in 2017 reflecting increased patient volume, additional bed capacity, growth in surgical volumes, strong pharmaceutical activity, a favorable patient mix, and good expense control throughout the Health System.

	Fiscal Year June 30,		
	2018	**2017**	**2016**
		(in thousands)	
Clinical Activities	$ 430,360	$ 383,208	$ 312,288
Development pledges and gifts	(1,272)	(25)	(679)
GASB 68 pension expense	(117,250)	(168,147)	(63,005)
GASB 75 OPEB expense	(40,921)	-	-
Income Before Other Changes in Net Position	**$ 270,917**	**$ 215,036**	**$ 248,604**

Changes to Net Position include Medical Center Investments of $150.4 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $145.2 million in 2017 and $125.3 million in 2016. Additionally, changes to Net Position include $19.2 million of capital contributions for hospital projects and capital acquisitions. Changes to Net Position include other restricted expendable funds and pledges in support of the tower and other initiatives in the amount of $0.3 million in 2018, $0.4 million in 2017, and $0.8 million in 2016. After these changes and including the impact of the effect of restatement of beginning net position related to the implementation of GASB 75, the Health System's Net Position decreased $390.9 million in 2018, increased $85.1 million in 2017, and increased $126.3 million in 2016.

Using the Financial Statements

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

Statement of Net Position

The Statement of Net Position represents the financial position of the Health System at the end of the fiscal year and includes all assets and deferred outflows and liabilities and deferred inflows. The difference between total assets and deferred outflows and total liabilities and deferred inflows – Net Position – is one indicator of the current financial condition of the Health System, while the change in Net Position is an indication of whether the overall financial condition has improved during the year. Included in deferred outflows and deferred inflows is the impact of the recognition of GASB 68 and GASB 75. The Statements of Net Position at June 30, 2018, 2017, and 2016 are summarized as follows:

	2018	2017	2016
		(in thousands)	
Current assets	$ 1,260,162	$ 1,021,993	$ 947,254
Non-current assets			
Assets whose use is limited	136,048	135,816	255,498
Long-term investment pool	275,497	267,236	-
Capital assets, net	1,437,028	1,390,555	1,370,708
Other	38,831	32,772	47,326
Deferred outflows	192,830	395,460	292,219
Total assets and deferred outflows	3,340,396	3,243,832	2,913,005
Other current liabilities	283,178	241,476	220,094
Current portion of long-term debt	50,098	49,059	46,744
Total current liabilities	333,276	290,535	266,838
Non-current liabilities			
Long-term debt	699,764	750,029	793,762
Net pension liability	793,547	1,110,007	829,337
Net OPEB liability	568,913	-	-
Other non-current liabilities	104,599	93,741	99,335
Deferred inflows	240,418	8,787	18,069
Total liabilities and deferred inflows	2,740,517	2,253,099	2,007,341
Net position	599,879	990,733	905,664
Total liabilities, deferred inflows, and net position	$ 3,340,396	$ 3,243,832	$ 2,913,005

Current Assets and Current Liabilities

	2018	2017	2016
		(in thousands)	
Current Assets			
Cash and cash equivalents	$ 732,356	$ 553,394	$ 550,007
Patient accounts receivable, net	403,637	375,530	324,460
Due from third-party	16,701	4,807	2,423
Inventories, Prepaids, Other Receivables	107,468	88,262	70,364
Total Current Assets	**$ 1,260,162**	**$ 1,021,993**	**$ 947,254**

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 2016 to 2018 is a result of solid operating performance, increased volumes, strong expense management, and an increased insured population related to healthcare reform as well as Medicaid expansion.

Patient accounts receivable, net represents amounts due from third-party payors and patients after allowances for discounts and bad debts. As of the end of the 2018 fiscal year, patient accounts receivable net increased $28.1 million from 2017, reflecting increases in admissions, beds capacity, and inpatient and outpatient surgical volumes. As of the end of the 2017 fiscal year, patient accounts receivable net increased $51.1 million from 2016, reflecting increases in both inpatient and outpatient volumes.

Due from third-party represents payments due from Medicare to the Health System for Periodic Interim Payments (PIP). As of the end of the 2018 fiscal year, due from third-party totaled $16.7 million. This compares to $4.8 million in 2017 and $2.4 million in 2016.

Inventories include medical supply, pharmaceutical drugs, and information technology equipment. Prepaids include preventive maintenance contracts on medical and information technology equipment. Additionally, other receivables represent amounts due from nonpatient activity, reference labs, and other revenue from Nationwide Children's Hospital management of the Neonatal Intensive Care Unit (NICU). As of the end of the 2018 fiscal year, inventories, prepaids, and other receivables totaled $107.5 million. This compares to $88.3 million in 2017 and $70.4 million in 2016. The change in inventories, prepaids, and other receivables from 2017 to 2018 reflects increases in pharmaceutical inventory and increases in prepaids related to preventive maintenance contracts and payments to the Care Innovation and Community Improvement Program (CICIP) which provides participants in the program to receive supplemental payments under the Medicaid program for physician and other professional services.

	2018	2017	2016
		(in thousands)	
Current Liabilities			
Accounts payable and accrued expenses	$ 189,417	$ 150,018	$ 138,585
Accrued salaries & benefits	67,099	55,892	47,796
Compensated absences	5,238	7,072	5,230
Current portion of long-term debt	50,098	49,059	46,744
Third-party payor settlements	21,424	28,494	28,483
Total Current Liabilities	**$ 333,276**	**$ 290,535**	**$ 266,838**

Accounts payable and accrued expenses increased $39.4 million from 2017 to 2018 due to increases in accounts payable for medical supplies related to increased bed capacity and surgical volumes. Additionally, accounts payable and accrued expenses increased for services related to advertising, consulting, and hospital renovations projects. Accounts payable and accrued expenses increased $11.4 million from 2016 to 2017 due to increases in accounts payable for medical supplies and services. Accrued Salaries and Benefits increased from 2016 to 2018 and is reflective of the growth in volumes and a larger workforce.

Assets Whose Use is Limited

	2018	2017	2016
		(in thousands)	
Assets whose use is limited			
Funds held for capital replacement	$ 88,017	$ 87,785	$ 87,467
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
Total Assets Limited as to Use	**$ 136,048**	**$ 135,816**	**$ 255,498**

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

Long-Term Investment Pool

	2018	2017	2016
		(in thousands)	
Long-Term Investment Pool			
Long-term investment pool - Cost Value	$ 250,000	$ 250,000	$ -
Unrealized Gain/(Loss)	25,497	17,236	-
Long-Term Investment Pool	**$ 275,497**	**$ 267,236**	**$ -**

In fiscal year 2017, the Health System transferred $250.0 million to the University for investment in the University's Long-Term Investment Pool to support capital projects, research initiatives, clinical care, and the academic mission. The $250.0 million transfer to the University's Long-Term Investment Pool included

$130.0 million of operating cash and $120.0 million of assets whose use is limited. The net increase or unrealized gain in the market value of investments during fiscal years 2018 and 2017 was $8.3 million and $17.2 million, respectively.

Capital Assets

	2018	2017	2016
		(in thousands)	
Capital Assets - Net			
Property, Plant, and Equipment	$ 2,553,892	$ 2,454,574	$ 2,309,870
Construction In Progress	123,316	35,498	47,769
Accumulated Depreciation	(1,240,180)	(1,099,517)	(986,931)
Capital Assets - Net	**$ 1,437,028**	**$ 1,390,555**	**$ 1,370,708**

The growth in property, plant, and equipment from 2017 to 2018 is due primarily from the capitalization of medical equipment, information technology equipment, facility renovations, and costs associated with staff parking relocation. The growth in construction in progress is due to the development of Phase 1 of the Cannon Drive Relocation project, build out of additional 72 patient beds at the James Cancer Hospital along with other facility infrastructure renovations and information technology projects. The growth in property, plant, and equipment from 2016 to 2017 is due primarily from the capitalization of upgrades related to the Brain and Spine Hospital as well as the capitalization of new facilities including the Jameson Crane Sports Medicine Institute and Upper Arlington outpatient care. Additionally, the growth in property, plant, and equipment includes capitalization of medical equipment and information technology equipment. The decrease in construction in progress from 2016 to 2017 is due to the Brain and Spine Hospital and the Jameson Crane Sports Medicine Institute opening and shifting assets to placed in service.

Other Non-current Assets and Non-current Liabilities

	2018	2017	2016
		(in thousands)	
Other Non-Current Assets			
Investment in subsidiaries	$ 15,024	$ 14,793	$ 12,901
Long term pledges receivable, net	4,342	6,402	7,290
Long term receivables and other non-current assets	19,465	11,577	27,135
Total Other Non-Current Assets	**38,831**	**32,772**	**47,326**

The Health System has an investment interest in MedFlight, a community based air ambulance/intensive care transport authority. Additionally, the Health System has an investment interest in a joint venture with partial ownership in Madison County Hospital, a community hospital. The change in investment balance reflects the Health System's equity interest in these investments. The increase in long term receivables and other non-current assets from 2017 to 2018 is related to interest income due from the University for the Health System's investment in the University's long-term investment pool. The decrease in long term receivables and other non-current assets from 2016 to 2017 is reflective of $22.6 million paid to Medstone Realty related to the construction and development of the Upper Arlington outpatient facility. The Upper Arlington outpatient facility has been reclassified to Property, Plant, and Equipment and capitalized as an asset in 2017. Long term receivables and other non-current assets also include endowment assets of $5.6 million in 2018, $5.0 million in 2017, and $4.4 million in 2016.

	2018	2017	2016
		(in thousands)	
Other Non-Current Liabilities			
Third-party payor settlements	$ 44,909	$ 38,032	$ 42,745
Compensated absences	58,961	54,884	53,480
Net pension liability	793,547	1,110,007	829,337
Net OPEB liability	568,913	-	-
Other non-current liabilities	729	825	3,110
Total Other Non-Current Liabilities	**$ 1,467,059**	**$ 1,203,748**	**$ 928,672**

Third-party payor settlements consists of future settlements of current and previous years Medicare and Medicaid cost reports. The change in third-party payor settlements from 2016 to 2018 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and current year Recovery Audit Contractors (RAC) activity. Compensated absences reflects the liability for earned but unused vacation and the potential payment of ill time upon an employee's termination or retirement. The increase in compensated absences from 2016 to 2018 is attributable to the growth in volumes at the Health System and a larger workforce. The Health System participates in a cost-sharing multiple-employer plan with the University and is required to recognize a proportionate share of the collective net pension liabilities of the plans. Net pension liabilities decreased $316.5 million from 2017 to 2018 reflecting reductions in net pension liabilities for both OPERS and STRS-Ohio retirement systems. The Health System recorded $568.9 million of OPERS and STRS-Ohio net OPEB liability related to the implementation of GASB 75 in 2018.

Net Position

Net Position represents the residual interest in the Health System's assets and deferred outflows after liabilities and deferred inflows are deducted. The composition of the Health System's Net Position at June 30, 2018, 2017 and 2016 is summarized as follows:

	2018	2017	2016
		(in thousands)	
Net Position			
Invested in capital assets, net of related debt	687,166	591,467	530,202
Restricted, nonexpendable	5,594	4,965	4,448
Restricted, expendable	15,208	19,161	22,018
Unrestricted	(108,089)	375,140	348,996
Net Position	**$ 599,879**	**$ 990,733**	**$ 905,664**

Net investment in capital assets are the Health System's capital assets net of accumulated depreciation and outstanding principal balances of debt obtained for acquiring, constructing, and improving those assets. Net Position is further categorized into Restricted-Nonexpendable, Restricted-Expendable, and Unrestricted. Please see the Notes to the Financial Statements for further definition. Net Position decreased $390.9 million from 2017 to 2018 and is the result of the implementation and recognition of GASB 75 OPEB Liability. This was offset by increased volumes, strong clinical operations, and growth in operating cash related to clinical activities.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position represents the Health System's results of operations. A comparison of revenues, expenses and changes in net position for the years ended June 30, 2018, 2017, and 2016 is as follows:

	Fiscal Year June 30,		
	2018	2017	2016
Income and Change in Net Position		(in thousands)	
Operating Revenues	$ 3,106,236	$ 2,853,404	$ 2,628,273
Operating Expenses	2,815,739	2,632,341	2,332,187
Operating Income	290,497	221,063	296,086
Non-Operating Expenses	(19,580)	(6,027)	(47,482)
Income Before Other Changes in Net Position	270,917	215,036	248,604
Medical Center investments	$ (150,358)	$ (145,210)	$ (125,272)
Capital contributions	16,501	14,726	3,192
Additions to permanent endowments	629	517	(256)
Other Changes in Net Position	(133,228)	(129,967)	(122,336)
Increase in Net Position	$ 137,689	$ 85,069	$ 126,268
Net Position - Beginning of Year, as reported	990,733	905,664	779,396
Cumulative effect of accounting change	(528,543)	-	-
Net Position - End of Year	$ 599,879	$ 990,733	$ 905,664

Operating Revenues

Total operating revenues grew $252.8 million, or 8.9% from the prior year. The growth in operating revenues are a result of strong admissions and increased bed capacity, higher pharmaceutical activity as well as increased volumes in surgical and outpatient settings. Total operating revenues grew $225.1 million, or 8.6% from 2016 to 2017. The increases from 2016 to 2017 are a result higher admissions, surgical volumes, and outpatient activities.

Approximately 93% of total operating revenues are from patient care activities. Other Operating Revenues are composed of items such as reference labs, cafeteria operations, rental agreements and other sources. To ensure appropriate access and education for outpatients, the Health System operates a Retail Pharmacy due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. The Retail Pharmacy contributed $98.8 million of operating revenues in 2018, $92.5 million 2017, and $70.3 million in 2016. Additionally, in an effort to broaden medical service and patient access to the underserved population, the Health System is enrolled in the 340B Drug Pricing Program. The 340B Drug Pricing Program is a federal government program that provides prescription drugs at reduced prices to eligible patients through eligible health care organizations and covered entities. The Health System has partnered with area pharmacies to dispense prescription drugs to eligible patients. The 340B Drug Pricing Program contributed $24.2 million of operating revenues in 2018. Other Operating Revenues also includes a portion of the margin shared with Nationwide Children’s Hospital for the management of the Neonatal Intensive Care Unit located at the Heath System. The goal of this managed unit was to standardize the

care and quality outcomes of all the neonatal patients in Central Ohio. The NICU contributed $16.6 million of operating revenues in 2018, $16.4 million in 2017, and $18.8 million in 2016.

	Fiscal Year June 30,		
	2018	2017	2016
		(in thousands)	
Revenues			
Net patient service revenue less provision for bad debts	$ 2,877,882	$ 2,660,647	$ 2,471,249
Other Operating Revenues	228,354	192,757	157,024
Total Operating Revenue	**$ 3,106,236**	**$ 2,853,404**	**$ 2,628,273**

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

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

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

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2018. In the opinion of management, adequate provisions have been made for such settlements. The Health System records changes in estimates upon receiving interim or final settlements related to prior year cost reports and are recorded in net patient service revenue.

Subject to income and asset levels, Medicaid pays for care under its Programs for Children, Families, and Pregnant Women; Aged Blind and Disabled program; and premium assistance for Medicare program. As with Medicare, Medicaid pays for inpatient and outpatient services on prospectively determined case rates with provisions for cases having unusually high costs. As an exempt hospital for Medicare, The James is exempt from the case based system for Medicaid and is reimbursed based upon an Ohio Department of Medicaid percent of charges determined basis with no cost report settlement.

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

Contracts with Managed Care organizations are negotiated and include different payment methods. Many of the contracts are case based or per diem for inpatients, with a combination of case rates and percent of charges for outpatients. Managed Care organizations may also offer plans to Medicare and Medicaid beneficiaries. These plans typically pay negotiated rates, but usually on a basis consistent with

traditional Medicare or Medicaid plans. The State of Ohio mandates that patients eligible for Programs for Children, Families, and Pregnant Women enroll in a Medicaid managed care plan. Patients eligible under the Aged, Blind and Disabled program are mandated to enroll in a Medicaid managed care plan.

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

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

Payor Mix for the Health System has remained relatively consistent throughout the past several years. The Payor Mix for the 2018, 2017 and 2016 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2018**	**2017**	**2016**
Managed Care	37.7%	37.3%	38.5%
Medicare	37.4%	37.7%	37.0%
Medicaid	19.8%	21.2%	21.5%
Self Pay	1.5%	1.5%	1.3%
Other	3.6%	2.3%	1.7%
	100.0%	**100.0%**	**100.0%**

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2018, 2017, and 2016 is summarized as follows:

	Fiscal Year June 30,		
	2018	**2017**	**2016**
		(in thousands)	
Expenses			
Salaries and benefits	$ 1,304,358	$ 1,216,318	$ 1,143,747
Supplies and drugs	731,097	662,866	579,689
Purchased services	365,121	345,236	304,166
Depreciation	154,822	143,137	140,323
Pension expense	117,250	168,147	63,005
OPEB expense	40,921	-	-
Other expenses	102,170	96,637	101,257
Total Operating Expenses	**$ 2,815,739**	**$ 2,632,341**	**$ 2,332,187**

Operating expenses increased $183.4 million, or 7.0% from 2017 to 2018. The increase in salaries and benefits from 2017 to 2018 is reflective of the increased salaries and a larger workforce due to the

additional volumes related to increased bed capacity at University Hospital and the Brain and Spine Hospital as well as continued growth at the James Cancer Hospital and Ambulatory locations. The increase in admissions and beds capacity, strong surgical volumes, as well as strong outpatient pharmacy volume at the James Cancer Hospital contributed to the increase in supplies and drugs. The increase in supplies and drugs also includes higher volumes at the Retail Pharmacy and new volume related to the 340B Drug Pricing Program including drug purchases for the partnerships with area pharmacies to dispense prescription drugs to eligible patients. The increase in purchased services from 2017 to 2018 is reflective of increased preventive maintenance costs for information technology and medical equipment as well as an increase in franchise fee for the hospitals, advertising and recruitment. Depreciation increased due to additional equipment purchased for growing capacity at University Hospital and the Brain and Spine Hospital. Total pension and OPEB expense recognized by the Health System was $279.0 million in 2018. Total pension and OPEB expense includes $120.8 million of employer contributions and $117.3 million in GASB 68 accruals and $40.9 million in GASB 75 accruals.

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

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 1.6% from 2017 to 2018. The Health System employed 13,500 full time equivalent employees (FTEs) in 2018, 12,800 in 2017, and 12,100 in 2016.

Non-Operating Revenue and Expenses

The Health System incurred a total of $39.2 million in interest cost in 2018, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. The Health System incurred a total of $39.9 and $41.6 million interest cost in 2017 and 2016, respectively. In 2017, the Health System transferred $250.0 million to the University for investment in the University's Long-Term Investment Pool to support capital projects, research initiatives, clinical care, and the academic mission of the Medical Center. Income from investments in 2018 includes $8.3 million unrealized gain and $6.8 million of interest income related to the Long-Term Investment Pool. Income from investments in 2017 includes $17.2 million unrealized gain and $4.8 million of interest income related to the Long-Term Investment Pool.

Income Before Other Changes in Net Position

Income Before Other Changes In Net Position was $270.9 million in 2018 compared to $215.0 million in 2017. Impacts to Income Before Other Changes In Net Position include pension expense of $117.3 million in 2018 compared to $168.1 million in 2017 reflecting annual accounting for GASB 68. Additionally, OPEB expense was $40.9 million in 2018 reflecting the implementation of GASB 75. Income Before Other Changes in Net Position for clinical activities was $430.4 million in 2018 compared to $383.2 million in 2017. The increase in Income Before Other Changes in Net Position for clinical activities is due to increased patient volume and additional bed capacity, growth in surgical volumes, strong pharmaceutical activity, a favorable patient mix, and good expense control throughout the Health System.

Other Changes in Net Position

The Health System's other changes in net position for fiscal year 2018 includes Medical Center Investments of $150.4 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $145.2 million in 2017 and $125.3 million in 2016. Additionally, other changes in net position include capital contributions of $19.2 million in 2018 and $17.6 million in 2017 for hospital projects and capital acquisitions.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Health System's major sources and uses of cash. A comparison of cash flows for the three years ended June 30, 2018, 2017, and 2016 is summarized as follows:

	2018	2017	2016
		(in thousands)	
Cash Flows			
Receipts from patients and third-party payors	$ 2,838,260	$ 2,603,242	$ 2,476,595
Payments to and on behalf of employees	(1,339,636)	(1,252,615)	(1,186,877)
Payments to vendors for supplies and services	(1,017,456)	(952,740)	(853,994)
Other operating activities	107,677	105,106	66,411
Net cash provided by operating activities	588,845	502,993	502,135
Cash flows from non-capital financing activities	1,909	1,680	730
Cash flows used in capital financing activities	(261,434)	(226,076)	(170,967)
Cash flows used in investing activities	(150,358)	(275,210)	(125,272)
Net increase in cash	178,962	3,387	206,626
Cash at beginning of year	$ 553,394	$ 550,007	$ 343,381
Cash at end of year	**$ 732,356**	**$ 553,394**	**$ 550,007**

Net cash provided by operating activities totaled $588.9 million in 2018 compared to $503.0 million in 2017. The Health System had strong collections on patient accounts and continued to experience solid results and growth from operations. Net cash used in capital financing activities totaled $261.4 million in 2018, an increase of $35.4 million compared to 2017 as a result of purchases of Health System capital assets and the payment of debt obligations. Net cash used in investing activities totaled $150.4 million related to the reinvestment of funds back into the Medical Center for research, education, and programs at the Medical Center.

Future Direction

Healthcare at The Ohio State University Wexner Medical Center is future-focused and driven by the mission to improve health in Ohio and across the world through innovation in research, education and patient care. The Health System will continue to respond to the challenges and opportunities of the healthcare environment. The healthcare industry is witnessing a transformation toward a value-based system that will require The Health System to continue to provide high quality care and superior outcomes. The Health System has aggressively implemented cutting edge healthcare delivery strategies and continues to enhance tertiary and quaternary care delivery across a broader geographic area.

The Health System will continue creating an innovative healthcare delivery model to deliver high value care with an unparalleled patient experience and access. As a leading academic medical center, The Ohio State University Wexner Medical Center will change how patients receive care. The Medical Center has a critical role in both meeting the most complex care needs of our community and also keeping our community and individuals healthy. This role can only be filled by an academic medical center such as The Ohio State University Wexner Medical Center.

By pushing the boundaries of discovery and knowledge, The Ohio State University Wexner Medical Center will solve significant problems and deliver unparalleled care. The Medical Center embodies the Buckeye Spirit in everything we do through our shared values of Inclusiveness, Determination, Empathy, Sincerity, Ownership, and Innovation. 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 unmatched healthcare delivery model and growth in financial position and operating results during the upcoming year.

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

	Year Ended June 30, 2018	Year Ended June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	$ 732,356	$ 553,394
Patient accounts receivable, net of estimated uncollectibles of $56,945 in 2018 and $84,405 in 2017	403,637	375,530
Pledge receivables, net	1,263	991
Due from third-party	16,701	4,807
Other receivables	40,878	41,490
Inventory	39,237	33,410
Prepaid expenses and other current assets	26,090	12,371
Total current assets	1,260,162	1,021,993
Non-current assets:		
Assets whose use is limited	136,048	135,816
Long-term investment pool	275,497	267,236
Investment in subsidiaries	15,024	14,793
Capital assets, net	1,437,028	1,390,555
Long term pledge receivables, net	4,342	6,402
Long term receivables and other non-current assets	19,465	11,577
Total non-current assets	1,887,404	1,826,379
Total assets	3,147,566	2,848,372
Deferred outflows:		
Pension	150,973	395,460
OPEB	41,857	-
Total deferred outflows	192,830	395,460
Total assets and deferred outflows	$ 3,340,396	$ 3,243,832
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 189,417	$ 150,018
Accrued salaries and benefits	67,099	55,892
Compensated absences	5,238	7,072
Third-party payor settlements	21,424	28,494
Current portion of long-term debt	50,098	49,059
Total current liabilities	333,276	290,535
Non-current liabilities:		
Long-term debt less current portion	699,764	750,029
Compensated absences less current portion	58,961	54,884
Third-party payor settlements less current portion	44,909	38,032
Net pension liability	793,547	1,110,007
Net OPEB liability	568,913	-
Other non-current liabilities	729	825
Total non-current liabilities	2,166,823	1,953,777
Total liabilities	2,500,099	2,244,312
Deferred inflows:		
Pension	198,010	8,787
OPEB	42,408	-
Total deferred inflows	240,418	8,787
Total liabilities and deferred inflows	2,740,517	2,253,099
Net Position		
Net investment in capital assets	687,166	591,467
Restricted:		
Nonexpendable	5,594	4,965
Expendable	15,208	19,161
Unrestricted	(108,089)	375,140
Total net position	599,879	990,733
Total liabilities, deferred inflows, and net position	$ 3,340,396	$ 3,243,832

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, 2018	Year Ended June 30, 2017
Operating Revenues		
Net patient service revenue	$ 2,920,146	$ 2,688,377
Provision for bad debts	(42,264)	(27,730)
Net patient service revenue less provision for bad debts	2,877,882	2,660,647
Other revenue	228,354	192,757
Total Operating Revenue	3,106,236	2,853,404
Operating Expenses		
Salaries and benefits	1,304,358	1,216,318
Supplies and drugs	731,097	662,866
Purchased services	365,121	345,236
Depreciation	154,822	143,137
Pension expense	117,250	168,147
OPEB expense	40,921	-
Other expenses	102,170	96,637
Total Expenses	2,815,739	2,632,341
Operating Income	290,497	221,063
Non-Operating Revenues (Expenses)		
Interest expense	(39,189)	(39,865)
Income from investments	21,235	24,992
Gifts	(1,272)	(25)
Other non-operating (expenses) revenues	(354)	8,871
Total Non-Operating Expenses	(19,580)	(6,027)
Income Before Other Changes in Net Position	270,917	215,036
Other Changes in Net Position		
Medical Center investments	(150,358)	(145,210)
Capital contributions	16,501	14,726
Additions to permanent endowments	629	517
Total Other Changes in Net Position	(133,228)	(129,967)
Increase in Net Position	137,689	85,069
Net Position - Beginning of Year		
Beginning of year, as previously reported	990,733	905,664
Cumulative effect of accounting change	(528,543)	-
Beginning of year, as restated	462,190	905,664
Net Position - End of Year	$ 599,879	$ 990,733

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, 2018	Year Ended June 30, 2017
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 2,838,260	$ 2,603,242
Other receipts	223,284	213,164
Payments to and on behalf of employees	(1,339,636)	(1,252,615)
Payments to vendors for supplies and services	(1,017,456)	(952,740)
Payments on other expenses	(115,607)	(108,058)
Net cash provided by operating activities	588,845	502,993
Cash flows from non-capital financing activities		
Gift receipts for current use	1,280	1,163
Additions to permanent endowments	629	517
Net cash provided by non-capital financing activities	1,909	1,680
Cash flows from capital financing activities		
Purchase of capital assets	(187,727)	(163,802)
Repayments of long-term debt	(49,226)	(47,621)
Cash paid for interest	(36,566)	(38,726)
Contributions and transfers for property acquisitions	12,085	24,073
Net cash used in capital financing activities	(261,434)	(226,076)
Cash flows from investing activities		
Medical Center investments	(150,358)	(145,210)
Transfer of assets whose use is limited	-	120,000
Purchase of long-term investments	-	(250,000)
Net cash used in investing activities	(150,358)	(275,210)
Net increase in cash and cash equivalents	178,962	3,387
Cash and cash equivalents at beginning of year	553,394	550,007
Cash and cash equivalents at end of year	$ 732,356	$ 553,394
Reconciliation of operating income to net cash provided in operating activities		
Operating Income	290,497	221,063
Adjustments to reconcile operating income to net cash provided by operations:		
Pension Expense	117,250	168,147
OPEB Expense	40,921	-
Depreciation	154,822	143,137
Changes in operating assets and liabilities:		
Patient accounts receivable	(28,107)	(51,070)
Other receivables	(7,658)	6,960
Inventories	(5,827)	(8,564)
Prepaid expenses and other assets	(13,719)	(4,169)
Accounts payable/accrued expenses	39,399	23,134
Accrued salaries and benefits	11,207	8,095
Third party payor settlements	(12,087)	(4,702)
Compensated absences	2,243	3,247
Other liabilities	(96)	(2,285)
Net cash provided by operating activities	588,845	502,993
Non Cash Transactions		
Unrealized (gain) on investments	(8,261)	(17,236)

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

NOTE 1 – ORGANIZATION

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

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

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

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

New Accounting Pronouncements:

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

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

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

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard is intended to improve note disclosures related to debt, including direct borrowings and private placements. It defines debt, for disclosure purposes, as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) to settle an amount that is fixed at the date the contractual obligation is established. The standard requires additional disclosures related to unused lines of credit, assets pledged as collateral and significant provisions related to default, termination events and acceleration clauses. In addition, it requires that disclosures for direct borrowings and private placements be shown separately from other debt. The standard is effective for reporting periods beginning after June 15, 2018 (FY2019).

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard requires that interest cost incurred during the period of construction be recognized as an expense in the period in which the cost is incurred. These costs will no longer be included in the historical costs of capital assets. The standard is effective for periods beginning after December 15, 2019 (FY2021) and will be applied on a prospective basis.

Health System management is currently assessing the impact that implementation of GASB Statements No. 83, 84, 87, 88 and 89 will have on the Health System's financial statements.

Implementation of GASB Statement No. 75

In fiscal year 2018, the Health System implemented GASB Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires employers in cost-sharing, multi-employer plans to recognize a proportionate share of the net other post-employment benefit (OPEB) liabilities of the plans. The Health System participates in two cost-sharing multiple-employer pension plans, the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System, which provide post-retirement healthcare benefits. A proportionate share of the net OPEB liabilities of the retirement systems has been allocated to the Health System, based on retirement plan contributions for Health System employees. The cumulative effect of adopting GASB Statement No. 75 was a $528,543 reduction in the Health System's net position as of July 1, 2017. Additional information regarding net OPEB liabilities, related deferrals and OPEB expense is provided in Note 8 – Retirement Plans.

Use of Estimates:

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

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

Principles of Consolidation:

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

Net Position:

Net Position is categorized as:

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

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

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

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

Cash and Cash Equivalents on Deposit with the University:

Cash and cash equivalents of $732,356 at June 30, 2018 and $553,394 at June 30, 2017 consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts held at the University. Health System cash is pooled with other operating units within the University and earns interest income at rates established through the University's internal bank program.

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

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

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

Medicare:

The Medicare program reimburses the Health System for services provided to its beneficiaries. The Ohio State University Hospital, The Richard M. Ross Heart Hospital, and The Ohio State University Hospital East reimbursement for inpatient services are based on a prospective payment system (PPS) that utilizes Medicare Severity Diagnostic Related Groups (MS-DRGs). These payment rates vary according to the patient classification system established by the Center for Medicare and Medicaid Services (CMS). OSU Harding is paid under PPS for Medicare Inpatient Psychiatric facilities. Medicare reimburses the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute on a Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) basis, subject to certain reasonable cost limits. Outpatient services for all business units are paid prospectively on pre-determined fee schedules or Ambulatory Payment Classifications (APCs). In addition, the James receives Hold Harmless payments up to a published payment to cost ratio (PCR). The program's share of Graduate Medical Education, Paramedical training, 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 Diagnostic Related Groups (APR-DRGs). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. This is applicable for every business unit except the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute. Outpatient services are paid prospectively on pre-determined fee schedules except the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute. Inpatient capital costs are paid based on an Ohio Department of Medicaid published hospital specific rate. Effective July 1, 2014, there is no longer cost report settlement, although the reports continue to be required.

The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute is reimbursed for inpatient and outpatient beneficiary care at Ohio Department of Medicaid published rates with final cost settlement via cost reports through September 30, 2014. Thereafter, cost settlement no longer applies. 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, 2018. 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, 2015 and June 30, 2013 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, 2016 and June 30, 2013 for Medicaid.

Contributions and Pledges Receivable:

The University receives pledges and bequests of financial support from corporations, foundations and individuals, including amounts relating to the capital expansion and patient care activities of the Health System. Contributions and pledges receivable are recorded in the Health System's financial statements. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. Property contributions received in fiscal years 2018 and 2017 totaled $537 and $3,982 respectively and are recorded in capital contributions within Other Changes in Net Position. The $537 in 2018 and $3,982 in 2017 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 $168 at June 30, 2018 and $1,481 at June 30, 2017. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

Inventories:

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

Assets Whose Use is Limited:

Assets Whose Use is Limited are set aside for future capital improvements, third party settlements, debt repayments and research initiatives. Control of these assets is maintained by the Health System who may, at its discretion, subsequently use the assets for other purposes not related to current operations with Medical Center Board of Directors' approval.

These funds are invested in The Ohio State University investment pool. The Health System receives interest based on rates established by The University's internal bank program.

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

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

Assets whose use is limited consisted of the following at June 30, 2018 and 2017:

	2018	2017
	(in thousands)	
Funds held for capital replacement	$ 88,017	$ 87,785
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
Total	**$ 136,048**	**$ 135,816**

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

Amounts invested in The Ohio State University Long-Term Investment Pool are recorded at fair value. These funds are managed by the Investment Office of the University, which commingles the funds with other University related organizations. Earned investment income by a fund is based on the moving average of its monthly market value percentage to the overall pool. Investments are carried at fair value in accordance with GASB Statement No. 31*, Accounting and Reporting for Certain Investments and for External Investment Pools* as amended by GASB Statement 72*, Fair value Measurement and Application*. The net increase in the value of investments during the year ended June 30, 2018 is $8,261. This amount takes into account all changes in fair value (including purchase and sales) that occurred during the fiscal year.

The calculation of unrealized gain or loss is independent of the calculation of the net increase in fair value of investments. As of June 30, 2018, there is a cumulative unrealized gain on investments of $25,497. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long-Term Investment Pool. Net appreciation related to operating funds is classified as unrestricted net position. Net appreciation related to endowment funds is classified as restricted-expendable net position.

Endowment Funds:

All University endowments are invested in the University's Long-Term Investment Pool and are invested and administered according to University policy. Certain endowment fund assets, namely funds relating to the Health System capital expansion and patient care activities, have been recorded in the Health System's financial statements beginning in fiscal year 2012 based upon the concurrent determination that the underlying activities are to be recorded by the Health System. Each named Health System fund is assigned a number of shares in the University Long-Term Investment Pool based on the value of the gifts, income to principal transfers, or transfers of operating funds to the named fund. Annual distributions from the funds are computed using the share method of accounting for pooled investments. Health System endowment fund assets are included in Long term receivables and other assets on the Statement of Net Position, and totaled $5,594 and $4,965 at June 30, 2018 and 2017, respectively.

Investments in Subsidiaries:

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

(in thousands)

Capital Assets:

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

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

Net Patient Service Revenues:

Net Patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated and retroactive settlements. The growth in bad debts is related to an increase in the Self Pay volume in 2018. Net patient service revenue for the years ended June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Total patient service revenue	$ 9,159,315	$ 8,456,168
Contractual allowances and other discounts	(6,239,169)	(5,767,791)
Provision for bad debts	(42,264)	(27,730)
Net patient service revenue	**$ 2,877,882**	**$ 2,660,647**

Additionally, net patient service revenue is reported net of contractual allowances and other discounts and excludes provision for bad debts. Net patient service revenue amounts recognized from major payor sources (based on primary payor) for fiscal 2018 and 2017, respectively, is as follows:

2018	**Third-Party**	**Self-Pay**	**Total All Payors**
Patient service revenue (net of contractual allowances and other discounts)	$ 2,877,214	$ 42,932	$ 2,920,146
2017			
Patient service revenue (net of contractual allowances and other discounts)	$ 2,650,279	$ 38,098	$ 2,688,377

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.

(in thousands)

The total cost of charity care provided is determined using a ratio of costs to gross charges calculation methodology. The total cost of charity care is adjusted by support received under the Health Care Assurance Program (HCAP) to arrive at net cost of charity care. HCAP is administered by the State of Ohio to help hospitals cover a portion of the costs of providing charity care. The cost of providing charity for the fiscal years 2018 and 2017 are as follows:

	2018	2017
Total cost of charity care	$ 23,586	$ 30,294
Less Health Care Assurance Program support	6,776	12,416
Net cost of charity care	**$ 30,362**	**$ 42,710**

Other Revenue

Other Revenue is composed of items such as reference labs, cafeteria operations, rental agreements, retail pharmacy operations, 340B contract pharmacy agreements, Neonatal Intensive Care Unit, and other sources.

Estimated Medical Liability Costs

The Health System recognizes medical liability contributions paid to The University's Self Insurance Program as a period expense. See NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

NOTE 3 – LONG-TERM INVESTMENT POOL

In fiscal year 2017, the Health System transferred $250,000 to the University, for investment in the University's Long-Term Investment Pool. In addition, certain endowment funds, namely funds relating to the Health System capital expansion and patient care activities, have been recorded in the Health System's financial statements beginning in fiscal year 2012 based upon the concurrent determination that the underlying activities are to be recorded by the Health System.

The pool consists of more than 5,600 named funds. Each named fund in the Long-Term Investment Pool is assigned a number of shares, based on the value of the original gift amounts, income-to-principal transfers or transfers of operating funds to that named fund. The pool is invested in a diversified portfolio of equities and fixed income securities, as well as a number of alternative investment funds, such as real estate limited partnerships, hedge funds, private equity funds, venture capital funds and natural resources funds. The pool is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support the Health System's mission.

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

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

(in thousands)

At June 30, 2018, the original cost and market value of the Health System's operating investments in the pool were $250,000 and $275,497, respectively.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2018 and 2017 is summarized as follows:

	2018			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	$ 157,400	15,885	1,112	$ 172,173
Buildings	1,092,577	21,822	521	1,113,878
Leasehold Improvements	29,895	1,261	210	30,946
Equipment - fixed	513,481	5,664	66	519,079
Equipment - moveable	661,221	70,544	13,949	717,816
Construction in progress	35,498	202,993	115,175	123,316
	2,490,072	318,169	131,033	2,677,208
Less accumulated depreciation	1,099,517	154,820	14,157	1,240,180
Capital assets, net	**$ 1,390,555**	**163,349**	**116,876**	**$ 1,437,028**

Capital assets placed in service in 2018 were $115,176. The capital assets placed in service are due primarily from the capitalization of medical equipment, information technology, facility renovations, and costs associated with staff parking relocation. The growth in construction in progress is due to the build out of additional James Cancer Hospital patient rooms along with other facility infrastructure renovations and information technology projects. Additionally the growth in construction in progress is related to the development of Phase 1 of the Cannon Drive Relocation project. The Cannon Drive Relocation project is estimated to cost $52,000 and will be located between King Avenue and John Herrick Drive. The Cannon Drive Relocation project will straighten and elevate the road out of the flood plain, create twelve acres of developable land, and provide flood protection to all areas on the western edge of main campus. A significant portion of the newly developable land will be used for the site of a new hospital tower. The Health System has recorded 61.6% of the project using a determined funding split based on the insurable values of the buildings that will be protected by the Cannon Drive improvements.

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

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

(in thousands)

NOTE 5 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2018 is summarized as follows:

	2018			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2015, 4.75% through 2031	$ 7,680	$ -	$ 415	$ 7,265
2013, 4.75% through 2032	391,020	-	18,320	372,700
2010, 4.95% through 2031	263,766	-	14,329	249,437
2008, 3.83%-4.03% through 2029	54,012	-	3,770	50,242
2005, 3.83%-4.03% through 2026	44,040	-	4,640	39,400
2003, 4.32%-4.57% through 2024	20,843	-	4,261	16,582
1999, 5.14% through 2030	5,099	-	338	4,761
Other Financing:				
2016 Master Lease, 1.67% through 2021	3,618	-	828	2,790
2016 Master Lease, 2.058% through 2021	2,095	-	424	1,671
Mgmt Svc , 4.38% through 2022	813	-	167	646
2013, 4.50% through 2021	2,675	-	761	1,914
2012, 2.25%-4.00% through 2021	124	-	58	66
2010, 3.65%-5.84% through 2021	3,303	-	915	2,388
Interim University financing	-	-	-	-
Total Long Term Obligations	**799,088**	**-**	**49,226**	**749,862**
Less Current Portion of Long-Term Debt	49,059	50,098	49,059	50,098
Net Long Term Debt	**$ 750,029**	**$ (50,098)**	**$ 167**	**$ 699,764**

The Health System received no additions to debt related to University Bonds or Other Financing in fiscal year 2018.

(in thousands)

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

	2017			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2015, 4.75% through 2031	$ 8,077	$ -	$ 397	$ 7,680
2013, 4.75% through 2032	408,491	-	17,471	391,020
2010, 4.95% through 2031	277,404	-	13,638	263,766
2008, 3.83%-4.03% through 2029	57,633	-	3,621	54,012
2005, 3.83%-4.03% through 2026	48,494	-	4,454	44,040
2003, 4.32%-4.57% through 2024	24,920	-	4,077	20,843
1999, 5.14% through 2030	5,427	-	328	5,099
Other Financing:	-			
2016 Master Lease, 1.67% through 2021	-	4,230	612	3,618
2016 Master Lease, 2.058% through 2021	-	2,200	105	2,095
Mgmt Svc , 4.38% through 2022	1,200	-	387	813
2013, 4.50% through 2021	3,402	-	727	2,675
2012, 2.25%-4.00% through 2021	1,280	-	1,156	124
2010, 3.65%-5.84% through 2021	4,178	-	875	3,303
Interim University financing	-	-	-	-
Total Long Term Obligations	**840,506**	**6,430**	**47,848**	**799,088**
Less Current Portion of Long-Term Debt	46,744	49,059	46,744	49,059
Net Long Term Debt	**$ 793,762**	**$ (42,629)**	**$ 1,104**	**$ 750,029**

The $6,430 additions to debt related to Other Financing in fiscal year 2017 were used to fund the Da Vinci Robots at The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute and University Hospital East for $4,230 and $2,200, respectively. The Health System received no additions to debt in 2017 related to University Bonds.

University Bonds

The University has issued general receipts bonds, and has allocated a portion of those to the Health System with no premium or discount on the debt. The acquisition of this debt has been for various hospital construction and renovation projects, and the funding of the Medical Center Expansion project. The Health System received no additions to debt in 2018 and 2017 related to University Bonds.

Other Financing

The loan pertaining to the Da Vinci Robots at The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute in fiscal 2017 is to be repaid in twenty quarterly installments at an interest rate of 1.67%. The loan pertaining to the Da Vinci Robots at University Hospital East in fiscal 2017 is to be repaid in twenty quarterly installments at an interest rate of 2.058%.

(in thousands)

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
2019	50,272	34,280	84,552
2020	52,138	31,941	84,079
2021	53,372	29,509	82,881
2022	54,243	27,028	81,271
2023	56,133	24,463	80,596
2024-2028	286,123	82,305	368,428
2029-2032	197,581	17,063	214,644
	$ 749,862	**$ 246,589**	**$ 996,451**

NOTE 6 – OPERATING LEASES

The Health System leases various buildings and office space under operating lease agreements. These facilities are not recorded as assets on the Statement of Net Position. Operating leases related to equipment are not significant. Total operating lease and rental expense for fiscal years 2018 and 2017 were $21,217 and $20,707, 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, 2018, that have initial or remaining lease terms in excess of one year:

2019	$ 11,919
2020	10,786
2021	9,942
2022	9,627
2023	9,556
2024-2028	44,422
2029-2033	20,580
2034-2035	943
	$ 117,775

NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY

On July 1, 2003, the Health System joined with OSU Physicians (OSUP), a component unit of The Ohio State University, to establish a self-insurance fund for professional and patient general liability claims (Fund II). The fund covers the hospitals as well as the employed physicians of OSUP. Previous to July 1, 2003, the Health System was self-insured through the University's established self-insurance fund for professional and general liability (Fund I). The assets and liabilities of both funds are included in the University's financial statements, but are not included in the Health System financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2018. The medical liability expense is recorded as period expenses for the Health System. There was no medical liability expense for fiscal years 2018 and 2017.

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 and a $2,000 buffer layer in excess of this retention. Effective July 1, 2017, Oval Limited provides coverage with limits of $85,000 per occurrence and in the aggregate. A portion of the risk written to date is reinsured by a combination of five reinsurance companies each of which has a minimum A.M. Best rating of A (Berkley Insurance Company: A+, Endurance Specialty Insurance Ltd: A+, Medical Protective A++, Berkshire Hathaway – National Liability & Fire Insurance Company: A++ , and Ironshore: A).

Oval Limited assets and liabilities are included in the University's financial statements, but are not included in the Health System financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expenses. There were no contributions to Oval in fiscal years 2018 and 2017.

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

NOTE 8 - RETIREMENT PLANS

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

STRS Ohio and OPERS 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. In addition, the retirement systems provide other post-employment benefits (OPEB), consisting primarily of healthcare. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors.

In accordance with GASB Statements Nos. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities of the plans. Although changes in the net pension and OPEB liabilities generally are recognized as expense in the current period, certain items are 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 10 years).

(in thousands)

The collective net pension liabilities of the retirement system's and the Health System's proportionate share of these net pension liabilities as of June 30, 2018 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 23,755,214	$ 15,548,439	
Proportion of the net pension liability - Health System	0.015%	5.082%	
Proportionate share of net pension liability	$ 3,453	$ 790,094	$ 793,547

The collective net OPEB liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2018 are as follows:

	STRS-Ohio	OPERS	Total
Net OPEB liability - all employers	$ 3,901,631	$ 10,859,263	
Proportion of the net OPEB liability - Health System	0.015%	5.234%	
Proportionate share of net OPEB liability	$ 567	$ 568,346	$ 568,913

The collective net pension liabilities of the retirement system's and the Health System's proportionate share of these net pension liabilities as of June 30, 2017 are as follows:

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

(in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2018:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 133	$ 1,228	$ 1,361
Changes in assumptions	755	92,617	93,372
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion of university contributions	3	2,187	2,190
Employer contributions subsequent to the measurement date	237	53,813	54,050
Total	**$ 1,128**	**$ 149,845**	**$ 150,973**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 28	$ 18,839	$ 18,867
Net difference between projected and actual earnings on pension plan investments	114	179,000	179,114
Changes in proportion of university contributions	$ -	$ 29	29
Total	**$ 142**	**$ 197,868**	**$ 198,010**

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2018:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 33	$ 442	$ 475
Changes in assumptions	-	41,382	41,382
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion of university contributions	-	-	-
Employer contributions subsequent to the measurement date	-	-	-
Total	**$ 33**	**$ 41,824**	**$ 41,857**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ -	$ -
Changes in assumptions	46		46
Net difference between projected and actual earnings on OPEB plan investments	24	42,338	42,362
Changes in proportion of university contributions	$ -	$ -	-
Total	**$ 70**	**$ 42,338**	**$ 42,408**

(in thousands)

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

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 220	$ 1,773	$ 1,993
Changes in assumptions	-	176,896	176,896
Net difference between projected and actual earnings on pension plan investments	452	164,699	165,151
Changes in proportion of university contributions	3	625	628
Employer contributions subsequent to the measurement date	254	50,537	50,791
Total	**$ 929**	**$ 394,530**	**$ 395,459**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 8,752	$ 8,752
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion of university contributions	$ -	$ 35	35
Total	**$ -**	**$ 8,787**	**$ 8,787**

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
2019	395	119,480	119,875
2020	308	(18,973)	(18,665)
2021	221	(76,360)	(76,139)
2022	62	(71,471)	(71,409)
2023	-	(271)	(271)
2024 and Thereafer	-	(428)	(428)
Total	**$ 986**	**$ (48,023)**	**$ (47,037)**

(in thousands)

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

	STRS-Ohio	OPERS	Total
2019	(8)	9,410	9,402
2020	(8)	9,412	9,404
2021	(8)	(8,753)	(8,761)
2022	(8)	(10,584)	(10,592)
2023	(2)	-	(2)
2024 and Thereafer	(2)	-	(2)
Total	**$ (36)**	**$ (515)**	**$ (551)**

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

(in thousands)

	STRS-Ohio	OPERS
Benefit Formula	**Pensions** -- The annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. **OPEB** – STRS Ohio provides access to health care coverage for eligible retirees who participated in the Defined Benefit or Combined Plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees and prescription drugs and reimbursement of a portion of the monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2019. Pursuant to the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Benefit recipients contributed $339.1 million or 60% of the total health care costs in fiscal 2017 (excluding deductibles, coinsurance and copayments). Medicare Part D is a federal program to help cover the costs of prescription drugs for Medicare beneficiaries. This program allows STRS Ohio to recover part of the cost for providing prescription coverage since all eligible STRS Ohio health care plans include creditable prescription drug coverage. For the year ended June 30, 2017, STRS Ohio received $79.4 million in Medicare Part D reimbursements.	**Pensions** -- 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. **OPEB** – The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by using managed care, case management, and other programs. Additional details on health care coverage can be found in the Plan Statement in the OPERS 2017 CAFR. OPERS no longer participates in the Medicare Part D program as of December 31, 2016. OPERS will receive the final distribution of funds from the Medicare Part D program for calendar year 2016 in 2018. Total federal subsidies received for the year ended December 31, 2017 were $812,170.

(in thousands)

	STRS-Ohio	OPERS
Cost-of-Living Adjustments (COLAs)	Effective July 1, 2017, the COLA was reduced to 0%.	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, current law provides for an annual COLA. The COLA is calculated on the member's base pension benefit at the date of retirement and is not compounded. Members retiring under the Combined Plan receive a COLA on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.
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. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. Under Ohio law, funds to pay health care costs may be deducted from employer contributions. For the year ended June 30, 2017, no employer allocation was made to the health care fund.	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2016, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
Measurement Date	June 30, 2017	December 31, 2017 (OPEB is rolled forward from December 31, 2016 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** July 1, 2017 for pensions; June 30, 2017 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.45% **Inflation:** 2.50% **Projected Salary Increases:** 12.50% at age 20 to 2.50% at age 65 **Cost-of-Living Adjustments:** 0% effective July 1, 2017 **Payroll Increases:** 3.00% **Health Care Cost Trends:** 6%-11% initial; 4.50% ultimate	**Valuation Date:** December 31, 2017 for pensions; December 31, 2016 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.5% for pensions; 6.5% for OPEB **Inflation:** 3.25% **Projected Salary Increases:** 3.25% - 10.75% **Cost-of-Living Adjustments:** 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple. **Health Care Cost Trends:** 7.5% initial; 3.25% ultimate

(in thousands)

	STRS-Ohio	OPERS
Mortality Rates	Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.	Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.
Date of Last Experience Study	June 30, 2016	December 31, 2015

(in thousands)

Investment Return Assumptions

STRS-Ohio

The 10 year expected real rate of return on defined benefit pension and health care 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:

Asset Class	Target Allocation	Long Term Expected Return*
Domestic Equity	28.0%	7.35%
International Equity	23.0%	7.55%
Alternatives	17.0%	7.09%
Fixed Income	21.0%	3.00%
Real Estate	10.0%	6.00%
Liquidity Reserves	1.0%	2.25%
Total	100%	

* Returns presented as geometric means

OPERS

The long term expected rates of return on defined benefit pension and health care investment assets were 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 defined benefit pension assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	23.0%	2.20%
Domestic Equity	19.0%	6.37%
Real Estate	10.0%	5.26%
Private Equity	10.0%	8.97%
International Equity	20.0%	7.88%
Other Investments	18.0%	5.26%
Total	100.0%	

* Returns presented as arithmetic means

The following table displays the Board-approved asset allocation policy for health care assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	34.0%	1.88%
Domestic Equities	21.0%	6.37%
REITs	6.0%	5.91%
International Equities	22.0%	7.88%
Other Investments	17.0%	5.39%
Total	100.0%	

* Returns presented as arithmetic means

(in thousands)

	STRS-Ohio	OPERS
Discount Rate	**Pensions** -- The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017. **OPEB** -- The discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, a blended discount rate of 4.13%, which represents the long-term expected rate of return of 7.45% for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58% for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.	**Pensions** -- The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. **OPEB** – A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td>Changes in Assumptions Since the Prior Measurement Date</td><td>Pensions -- The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

OPEB -- The discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.</td><td></td></tr>
<tr><td>Benefit Term Changes Since the Prior Measurement Date</td><td>Pensions – Effective July 1, 2017, the COLA was reduced to 0%.

OPEB -- The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.</td><td>Pensions -- For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.</td></tr>
<tr><td>Sensitivity of Net Pension Liability to Changes in Discount Rate</td><td><table><tr><th>1% Decrease (6.45%)</th><th>Current Rate (7.45%)</th><th>1% Increase (8.45%)</th></tr><tr><td>$ 4,949</td><td>$ 3,453</td><td>$ 2,192</td></tr></table></td><td><table><tr><th>1% Decrease (6.5%)</th><th>Current Rate (7.5%)</th><th>1% Increase (8.5%)</th></tr><tr><td>$ 1,411,783</td><td>$ 790,094</td><td>$ 272,275</td></tr></table></td></tr>
</table>

(in thousands)

	STRS-Ohio			OPERS		
Sensitivity of Net OPEB Liability to Changes in Discount Rate	1% Decrease (3.13%)	Current Rate (4.13%)	1% Increase (5.13%)	1% Decrease (2.85%)	Current Rate (3.85%)	1% Increase (4.85%)
	$ 761	$ 567	$ 414	$ 755,091	$ 568,346	$ 417,297
Sensitivity of Net OPEB Liability to Changes in Medical Trend Rate	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
	$ 394	$ 567	$ 795	$ 543,799	$ 568,346	$ 593,730

Defined Contribution Plans

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

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

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 9.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement healthcare 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 and OPEB Expense

Total pension and OPEB expense for the year ended June 30, 2018, including employer contributions and accruals associated with recognition of net pension liabilities, net OPEB liabilities and related deferrals, is presented below.

(in thousands)

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	$ 172	$ 108,537	$ 12,092	$ 120,801
GASB 68 Pension Accruals	(2,055)	119,305		117,250
GASB 75 OPEB Accruals	(274)	41,195		40,921
Total Pension and OPEB Expense	**$ (2,157)**	**$ 269,037**	**$ 12,092**	**$ 278,972**

Total pension expense for the year ended June 30, 2017, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

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

Pension and OPEB expenses are allocated to institutional functions on the Statement of Revenues, Expenses and Other Changes in Net Position.

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

NOTE 9 – COMPENSATED ABSENCES

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

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

The Health System accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the “termination payment method” which is set forth in 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.

(in thousands)

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

See the rollforward of compensated absences activity as included in Note 10.

NOTE 10 – OTHER NON-CURRENT LIABILITIES

Other non-current liability activity for the years ending June 30, 2018 and 2017 is summarized as follows:

	2018			
	Beginnng Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 54,884	$ 6,509	$ 2,432	$ 58,961
Third party payor settlements	38,032	65,550	58,673	44,909
Other non-current liabilities	825	160	256	729
	93,741	72,219	61,361	104,599

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

The increase in compensated absences from 2017 to 2018 is reflective of the increase in FTEs and a larger workforce. The changes in third-party payor settlements in 2018 and 2017 reflects updated calculations for current and prior year Medicare and Medicaid cost reports.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of hospital accounts receivable from patients and third party payors at June 30, 2018 and 2017 is summarized as follows:

Payor - receivables	2018	2017
Managed Care	59%	55%
Medicare	23%	24%
Medicaid	14%	15%
Self Pay	4%	6%
Total	**100%**	**100%**

NOTE 12 – RELATED PARTY TRANSACTIONS

The Ohio State University

The Health System purchases employee benefits, utilities, mail services, and construction project management services from the University. Additionally, the Health System pays university overhead, which includes such services as payroll processing, public safety, auditing, and insurance. University overhead charged to the Health System is recorded in Other expenses and was $53,440 and $48,996 for the years ended June 30, 2018 and 2017, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected $90,515 for healthcare services in 2018 and $86,744 in 2017 and is reflected in Net patient service revenue.

OSU Physicians

The Health System leases patient management, accounting and billing software and related hardware to OSU Physicians, Inc. (OSUP). 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 $150,358 for fiscal year 2018 and $145,210 for fiscal year 2017 and are reflected as Other Changes in Net Position.

Oval

The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are included in the University's financial statements, but are not included in the Health System financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense. There were no contributions to Oval in fiscal year 2018 and 2017. See NOTE 7 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

MedFlight

The Health System has an investment interest in MedFlight, a community based air ambulance/intensive care transport which is recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of $10,487 for fiscal year 2018 and $10,684 for fiscal year 2017.

OSU Mount Carmel Health Alliance

The Health System has a joint venture with Mount Carmel with partial ownership in Madison County Hospital which are recorded as Investment in subsidiaries. The investment reflects the Health System's equity interest of $4,450 for fiscal year 2018 and $4,026 for fiscal year 2017.

Medstone

In April 2016, the University (on behalf of the Health System) entered into a grant contract with Medstone Realty LLC, a subsidiary of Campus Partners. Under the agreement, the Health System provided a grant in the amount of $8,850 to Medstone for the acquisition of the office building at 700 Ackerman Road.

Medstone completed the purchase of the property (which included the building as well as the current lease agreements in place with tenants of the building) on June 24, 2016. The Health System has a call option to purchase the property from Campus Partners for $1 within a 5 year period from the date of the acquisition. The Medical Center is entitled to receive quarterly distributions for any net income earned on the property.

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

In April 2015, the Health System made a $5,000 grant to Medstone for the acquisition of land, architectural and other costs associated with the development of the Upper Arlington outpatient facility at Kingsdale. In October 2015, the Health System and Medstone entered into a 20-year lease agreement for the land and building. The 20-year lease term is greater than 75% of the estimated economic life of the asset and qualifies as a capital lease under GASB 62 *Classification of Leases*. The economic life of the Upper Arlington outpatient facility at Kingsdale is approximately 20 years. The Health System made prepaid rent payments to Medstone totaling $17,572 to fund construction of the facility during fiscal 2016.

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

NOTE 13 – CONTINGENCIES

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

NOTE 14 - COMPLIANCE

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

The estimated Medicare and Medicaid cost report settlements recorded at June 30, 2018 could differ from actual settlements based upon results of the cost report audits discussed in Note 2. Changes in Medicare and Medicaid programs and the reduction of funding levels could have a material adverse impact on the Health System.

NOTE 15 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through October 12, 2018, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements.

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES AND GASB 75 ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(UNAUDITED)
(in thousands)

GASB 68
Required Supplementary Information:

	2018		2017	
	STRS-Ohio	OPERS	STRS-Ohio	OPERS
Schedule of Proportionate Share of the Net Pension Liability				
Health System proportion of the collective net pension liability	0.015%	5.082%	0.016%	4.876%
Health System proportionate share of the net pension liability	$ 3,453	$ 790,094	$ 5,450	$ 1,104,558
Health System covered payroll	$ 1,316	$ 744,740	$ 1,417	$ 694,019
Health System proportionate share of the net pension liability as a percentage of its covered payroll	262%	106%	385%	159%
Plan fiduciary net position as a percentage of the total pension liability	75.3%	84.9%	66.8%	77.4%
Schedule of University Contributions				
Contractually required contribution	$ 172	$ 108,538	$ 202	$ 101,364
Contributions in relation to the contractually required contribution	$ 172	$ 108,538	$ 202	$ 101,364
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Health System covered payroll	$ 1,118	$ 770,257	$ 1,316	$ 719,422
Contributions as a percentage of covered payroll	15.4%	14.1%	15.3%	14.1%

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES AND GASB 75 ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(UNAUDITED)
(in thousands)

GASB 75
Required Supplementary Information:

	2018	
	STRS-Ohio	**OPERS**
Schedule of Proportionate Share of the Net OPEB Liability		
Health System proportion of the collective net OPEB liability	0.015%	5.234%
Health System proportionate share of the net OPEB liability	$ 567	$ 568,346
Health System covered payroll	$ 1,316	$ 744,740
Health System proportionate share of the net OPEB liability as a percentage of its covered payroll	43%	76%
Plan fiduciary net position as a percentage of the total OPEB liability	47.1%	54.1%

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

To the Board of Trustees of
The Ohio State University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ohio State University Wexner Medical Center Health System (the "Health System"), a series of departments of The Ohio State University, appearing on pages 17 to 47, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2018, which included an emphasis of matter paragraph concerning the scope of the Health System's financial statement presentation as discussed in Note 1 of the financial statements and the Health System's change in the manner in which it accounts for postemployment benefits other than pensions as discussed in Note 2 of the financial statements.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PricewaterhouseCoopers LLP

Columbus, Ohio
October 12, 2018

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Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

FRANKLIN COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 15, 2018

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