

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, 2021 and 2020, Report of Independent Auditors, and Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters

OHIO AUDITOR OF STATE
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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, 2020 through June 30, 2021. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 10, 2021

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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, which comprise the statements of net position as of June 30, 2021 and 2020, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ohio State University Wexner Medical Center Health System as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 1, the financial statements of the Health System are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of The Ohio State University that is attributable to the transactions of the Health System. They do not purport to, and do not, present fairly the financial position of The Ohio State University as of June 30, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 17 and the Required Supplementary Information on GASB 68 Pension Liabilities on page 49 and Required Supplementary Information on GASB 75 Net OPEB Liabilities on page 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 November 2, 2021 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2021. 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 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
November 2, 2021

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

Introduction

The following discussion and analysis provides an overview of the financial position and the activities of The Ohio State University Wexner Medical Center Health System (the "Health System") as of and for the years ended June 30, 2021, 2020, and 2019. 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 seven hospitals and a network of ambulatory care locations. The Health System provides a full spectrum of services from primary to quaternary specialized care. Key clinical care locations and facilities of the Health System include:

- **University Hospital:** the Wexner Medical Center's flagship hospital is a leader in multiple specialties including organ and tissue transplantation, women and infants, digestive diseases, bariatric surgery and minimally invasive surgery. In addition to having a Level I Trauma Center as designated by the American College of Surgeons, University Hospital is also home to a Level III Neonatal Intensive Care Unit, central Ohio's only adult burn center and the only adult solid organ transplant program in central Ohio.
- **Arthur G. James Cancer Hospital and Solove Research Institute ("The James"):** the only free-standing cancer hospital in central Ohio and the first in the Midwest, the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute is an international leader in cancer prevention, detection and treatment. The James is one of only 51 comprehensive cancer centers designated by the National Cancer Institute (NCI) and one of only a few institutions nationally funded by the NCI to conduct both phase I and phase II clinical trials on novel anticancer agents sponsored by the NCI.
- **Richard M. Ross Heart Hospital ("The Ross"):** is dedicated to advancing the field of cardiovascular medicine and surgery. The Ross Heart Hospital offers comprehensive heart and vascular care spanning every specialty from open heart surgery to electrophysiology, vascular surgery, advanced heart failure care and emergency cardiac care. The Ross is one of the nation's few free-standing facilities devoted entirely to the research of diseases affecting the heart, lungs and blood vessels.
- **OSU Harding Hospital:** offers counseling services along with the most comprehensive inpatient and outpatient mental health and behavioral health services in central Ohio. Programs are available for adolescents, adults and older adults with complex psychiatric disorders. Ohio State Harding Hospital's team includes psychiatrists, psychologists, social workers, registered nurses, occupational therapists, recreational therapists, chaplains and licensed counselors.
- **Ohio State East Hospital:** blends academic medicine with a community-based setting. Ohio State East Hospital offers renowned services in orthopedic care, emergency services, cancer care, addiction services, ear, nose and throat care, heart care, radiology and imaging services, rehabilitation and wound healing. Additionally, patients have access to central Ohio's leading alcohol and drug addiction recovery services, digestive disease treatment, a full-range of diagnostic services, a sleep disorders center and outpatient oncology services.
- **Dodd Hall:** home to Ohio State's nationally recognized and accredited rehabilitation inpatient program, specializing in stroke, brain and spinal cord rehabilitation. The program was the first in Ohio and is dedicated to physical medicine and rehabilitation research, training and treatment.
- **Brain and Spine Hospital:** a leader in brain and spine treatment and research with dedicated units for stroke care, neurotrauma and traumatic brain injuries, spinal cord injuries and spine surgery, epilepsy, chronic pain, acute rehabilitation, neurosurgery and sleep medicine. Ohio State is one of the first medical centers in the country to combine five neuroscience-related specialties into a single, integrated program and is designed to rapidly unlock the mysteries of the brain and to pioneer therapies and technology on every neurological front.
- **Ambulatory Services:** offering primary care and many specialized health services in numerous convenient locations throughout Ohio. Primary care, sports medicine, orthopedics, mammography, imaging, wound care and other specialties are provided with the compassionate and nationally ranked expert care that is synonymous with The Ohio State University Wexner Medical Center.

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MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

The Health System provided services to approximately 62,900 inpatients and 2,116,000 outpatients during fiscal year 2021, 62,300 inpatients and 1,868,000 outpatients during fiscal year 2020, and 64,500 inpatients and 1,915,000 outpatients during fiscal year 2019.

In total, the Health System operates nearly 1,500 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 29 consecutive years as one of “America’s Best Hospitals” and is ranked first in Central Ohio. The Health System is recognized as a national leader in ten specialties including: Cancer, Cardiology & Heart Surgery, Diabetes & Endocrinology, Ear, Nose & Throat, Gastroenterology and GI Surgery, Gynecology, Neurology & Neurosurgery, Pulmonary and Lung Surgery, Rehabilitation, and Urology. The Ear, Nose & Throat program ranked eighth in the United States. The Geriatrics specialty, along with 13 procedures and conditions, was ranked as high performing. The 13 common adult procedures and conditions that are recognized as high performing include: abdominal aortic aneurysm repair, aortic valve surgery, chronic obstructive pulmonary disease (COPD), colon cancer surgery, diabetes, heart attack, heart bypass surgery, heart failure, kidney failure, knee replacement, lung cancer surgery, pneumonia, and stroke. These high rankings demonstrate how The Wexner Medical Center is leading the way in life-changing medical research and compassionate, effective patient care.

In 2021, Forbes ranked The Ohio State University Wexner Medical Center fourteenth overall on its list of America’s Best Large Employers and second among hospitals on the list. This recognition means the Ohio State Wexner Medical Center employees who were surveyed see the medical center as an organization that leads in valuing, supporting, and investing in its employees.

The Wexner Medical Center has been recognized by Becker’s Hospital Review as one of the nation’s Top 100 Great Hospitals for its history of innovation, top-notch patient care and leadership in clinical advancement which is backed by forward-thinking research. Hospitals on the list are also considered a vital part of the community.

The Health System is also proud to be the first 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 Ohio State University Wexner Medical Center has more “Top Doctors” than any other central Ohio hospital. Wexner Medical Center physicians were selected by Castle Connolly because they are among the very best in their specialties.

Operating and Financial Highlights

	Fiscal Year June 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Selected Statistics</u>			
Admissions	62,921	62,352	64,534
Avg. Daily Census	1,234	1,172	1,221
Outpatient Visits	2,116,454	1,868,222	1,915,176
Emergency Visits	112,035	121,915	132,632
Transplants	574	589	483
Surgeries	50,740	44,741	46,703

The global outbreak of Covid-19, a new strain of coronavirus that can result in severe respiratory disease, was declared a pandemic by the World Health Organization on March 11, 2020 and a national emergency by the President of the United States on March 13, 2020. The Covid-19 outbreak has had a significant impact to the Health System and is expected to continue to have effects on its operation. Health System

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

management continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the community and promote the continuity of its mission.

Suspended operations due to the Covid-19 pandemic resulted in decreases in revenues and patient care volumes significantly below budget projections in 2020. Despite these challenges, however, the Health System's financial position remained strong and the enterprise continued its mission to "improve people's lives in Ohio and across the world through innovation in research, education and patient care."

In 2021, the Health System experienced recovery in surgical and procedural volumes. Total surgical volume increased 13.4% compared to 2020. Hospital admissions saw a slight growth in 2021 however the Health System experienced an increase of 8.7% in the acuity of patients in the hospital leading to an increased length of stay and higher patient revenues for the year.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act – which was enacted March 27, 2020 in response to the COVID-19 outbreak – includes provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. The Health System recognized \$143.3 million of Provider Relief Funds in 2020. Amounts provided to the Health System under CARES Act grant programs are recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met. In September 2020, Health and Human Services (HHS) issued new reporting requirements for the Provider Relief Funds (PRF). The new requirements first require the Health System to identify healthcare related expenses attributable to Covid-19 that another source has not reimbursed. If those expenses do not exceed the funding received, the Health System will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care net revenue compared to the calendar year 2020 budget. HHS is entitled to recoup amounts in excess of reportable healthcare related expenses and the negative change in patient care revenue. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under CARES Act for Provider Relief Funds may change in future periods.

In 2021, the Health System received an additional \$22.6 million in Provider Relief Funds. These funds were recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position at June 30, 2021. The Health System recorded a payable in the amount of \$16.8 million related to the Provider Relief Funds due to uncertainties related to multiple revisions of Provider Relief Fund eligibility and reporting requirements.

The Health System received \$274.9 million under the Medicare Accelerated and Advance Payment Program. These amounts are considered short-term loans and are reported as current liabilities in the Statement of Net Position. In 2021, the Health System paid back \$20.1 million in retractions related to this program and expects to pay back the remainder in 2022.

The Health System filed a Request for Public Assistance (RPA) with the Federal Emergency Management Agency (FEMA) for costs associated with emergency protective measures in response to Covid-19. Qualifying activities included purchases of Personal Protective Equipment (PPE), signage and educational materials, reimbursement for nursing overtime labor, purchase of ventilators, as well as standing up testing sites, inpatient surge units, and a field hospital for additional hospital capacity. In 2021, the Health System received a total amount of \$15.6 million related to Covid-19 cost recovery.

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

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is required to record a liability for its proportionate share of the net pension and OPEB liabilities of the retirement systems.

In 2021, the Health System's share of OPERS and STRS-Ohio net pension liabilities decreased \$258.3 million to \$835.0 million at June 30, 2021. The decrease relates primarily to OPERS net pension liabilities, which were down \$259.3 million, to \$831.1 million. In calendar year 2020, OPERS realized a 12.02% return on defined benefit plan investments for the period. Deferred outflows related to pensions decreased \$56.3 million, to \$71.3 million at June 30, 2021 while deferred inflows related to pensions increased \$135.6 million to \$373.1 million at June 30, 2021. The changes in pension deferrals relate primarily to OPERS projected vs actual investment returns. These deferrals will be recognized as pension expense in future periods.

In 2021, the Health System's share of OPERS and STRS-Ohio net OPEB liabilities changed from a \$789.1 million net liability to a \$105.2 million net asset at June 30, 2021, primarily due to changes in OPERS benefit terms. On January 15, 2020, the OPERS Board approved several changes to the health care plan offered to Medicare and non-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022 and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances. These changes in benefit terms, combined with an increase in the discount rate from 3.16% to 6.00%, resulted in an \$894.3 million reduction in the Health System's share of OPERS net OPEB liabilities. Deferred outflows related to OPEB decreased \$74.7 million, to \$52.1 million at June 30, 2021, and deferred inflows related to OPEB increased \$207.1 million, to \$319.6 million at June 30, 2021. The changes in pension deferrals relate primarily to OPERS deferrals for changes in assumptions and expected vs actual experience. These deferrals will be recognized as OPEB expense in future periods.

In 2020, the Health System's share of OPERS and STRS-Ohio net pension liabilities decreased \$341.7 million to \$1.1 billion at June 30, 2020. The decrease relates primarily to OPERS net pension liabilities. In calendar year 2019, OPERS realized a 17.23% return on defined benefit plan investments for the period. STRS net pension liabilities were relatively stable in 2020.

In 2020, the Health System's share of OPERS net OPEB liabilities increased \$87.3 million, to \$789.1 million at June 30, 2020 primarily due to a decrease in the discount rate from 3.96% to 3.16% that is used to calculate total OPEB liabilities. The impact of the lower discount rate was partially offset by a 19.59% return on investments.

In 2019, the Health System's share of OPERS and STRS-Ohio net pension liabilities increased \$641.5 million to \$1.4 billion at June 30, 2019. The increase relates primarily to OPERS net pension liabilities. In calendar year 2018, OPERS reduced its long-term assumed rate of return on pension plan investments from 7.5% to 7.2%, increasing total pension liabilities for the system.

In 2019, the Health System also saw significant changes in its share of OPERS and STRS-Ohio net OPEB assets and liabilities. OPERS net OPEB liabilities increased \$132.9 million, to \$701.8 million at June 30, 2019, primarily due to a negative 5.76% return on OPERS health care investments in calendar year 2018.

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 \$1.4 billion in 2021 compared to \$223.1 million in 2020. The Health System recognized a pension benefit of \$66.4 million in 2021 compared to a pension expense of \$136.8 million in 2020 reflecting annual accounting under GASB 68. In comparison, the Health System recognized an OPEB benefit of \$612.5 million in 2021 compared to an OPEB expense of \$127.8 million in 2020 reflecting annual accounting under GASB 75. Income Before Other Changes in Net Position for

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clinical activities was \$672.7 million in 2021, \$487.8 million in 2020, and \$486.2 million in 2019. Included in Income Before Other Changes in Net Position for clinical activities for 2021 was \$15.6 million of FEMA recovery as a result of the impact of Covid-19 on the Health System clinical operation.

	Fiscal Year June 30,		
	2021	2020	2019
	(in thousands)		
Clinical Activities	\$ 672,690	\$ 487,816	\$ 486,205
Development pledges and gifts	120	(78)	(183)
GASB 68 pension	66,358	(136,792)	(225,792)
GASB 75 OPEB	612,473	(127,789)	(77,522)
Other	-	(86)	(1,635)
Income Before Other Changes in Net Position	\$ 1,351,641	\$ 223,071	\$ 181,073

Changes to Net Position include Medical Center Investments of \$184.0 million reinvested to support clinical research and education, as well as various patient programs at the Medical Center. This compares to Medical Center Investments of \$173.7 million in 2020 and \$150.0 million in 2019. Changes to Net Position also include \$19.8 million of capital contributions for hospital projects and capital acquisitions. After these changes and including the impact of GASB 68 and GASB 75, the Health System's Net Position increased \$1.2 billion and totaled \$1.9 billion in 2021.

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.

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MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

The Statements of Net Position at June 30, 2021, 2020, and 2019 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
		<u>(in thousands)</u>	
Current assets	\$ 2,099,453	\$ 1,974,285	\$ 1,537,075
Noncurrent assets			
Assets whose use is limited	139,956	139,378	137,136
Long-term investment pool	371,134	282,320	282,961
Capital assets, net	2,020,983	1,696,555	1,487,507
Net OPEB Asset	105,185	-	-
Other	50,222	33,965	24,507
Deferred outflows	123,831	254,893	448,389
Total assets and deferred outflows	<u>4,910,764</u>	<u>4,381,396</u>	<u>3,917,575</u>
Current liabilities			
Accounts payable and accrued expenses	330,544	246,819	193,644
Medicare Advance Payment Program	254,854	274,915	-
Current portion of long-term debt	54,144	53,182	51,955
Other current liabilities	105,299	140,557	107,744
Total current liabilities	<u>744,841</u>	<u>715,473</u>	<u>353,343</u>
Non-current liabilities			
Long-term debt	539,935	594,270	647,634
Net pension liability	834,994	1,093,340	1,435,041
Net OPEB liability	-	789,145	701,844
Other non-current liabilities	206,283	136,943	115,501
Deferred inflows	692,710	349,926	24,431
Total liabilities and deferred inflows	<u>3,018,763</u>	<u>3,679,097</u>	<u>3,277,794</u>
Net position	<u>1,892,001</u>	<u>702,299</u>	<u>639,781</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,910,764</u>	<u>\$ 4,381,396</u>	<u>\$ 3,917,575</u>

Current Assets and Current Liabilities

	<u>2021</u>	<u>2020</u>	<u>2019</u>
		<u>(in thousands)</u>	
Current Assets			
Cash and cash equivalents	\$ 1,434,313	\$ 1,488,144	\$ 987,582
Patient accounts receivable, net	421,944	337,764	413,099
Due from third-party	1,237	5,020	12,125
Inventories, Prepays, Other Receivables	241,959	143,357	124,269
Total Current Assets	<u>\$ 2,099,453</u>	<u>\$ 1,974,285</u>	<u>\$ 1,537,075</u>

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. Cash decreased \$53.8 million from 2020 to 2021. The decrease in cash for 2021 includes \$504.7 million in capital purchases related to various hospital projects. The Health System also paid \$20.1M for retractions related to the Medicare Advance Payment Program. Cash includes \$22.6 million of Provider Relief Funds from Health and Human Services (HHS) and \$15.6 million of FEMA recovery as a result of the impact of Covid-19 on the Health System clinical operation.

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Cash increased \$500.6 million from 2019 to 2020. The increase in cash in 2020 includes \$143.3 million in Provider Relief Funds from HHS and \$274.9 million from the Medicare Advance Payment Program.

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 2021 fiscal year, patient accounts receivable net increased \$84.2 million compared to 2020, reflecting the overall increase in hospital patient acuity and increased outpatient volumes. Patient accounts receivable net decreased \$75.3 million from 2019 to 2020, reflecting the overall decline in hospital inpatient and outpatient volumes caused by the Covid-19 pandemic.

Due from third-party represents payments due from Medicare to the Health System for Periodic Interim Payments (PIP). As of the end of the 2021 fiscal year, due from third-party totaled \$1.2 million. This compares to \$5.0 million in 2020 and \$12.1 million in 2019.

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 2021 fiscal year, inventories, prepaids, and other receivables totaled \$242.0 million. This compares to \$143.4 million in 2020 and \$124.3 million in 2019. The growth in inventory for 2021 includes a \$9.3 million increase for Personal Protective Equipment (PPE). Other receivables increased \$100.4 million in 2021 related to Cost Coverage Add-on (CCA) Directed Payments of \$37.7 million as a result of an assessment from the Ohio Department of Medicaid related to Covid-19 related emergency spending measures as well as \$60.4 million for payments due from the University and OSU Physicians (OSUP) for supplies and services.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Current Liabilities</u>			
Accounts payable and accrued expenses	\$ 330,544	\$ 246,819	\$ 193,644
Medicare Advance Payment Program	254,854	274,915	-
Accrued salaries & benefits	68,747	82,925	75,350
Compensated absences	7,165	6,329	5,298
Current portion of long-term debt	54,144	53,182	51,955
Third-party payor settlements	29,387	51,303	27,096
Total Current Liabilities	\$ 744,841	\$ 715,473	\$ 353,343

Current liabilities represent obligations that are due within one year and consist primarily of accounts payable and accrued expenses, accrued salaries and benefits, compensated absences, current portion of principal debt payments, and third-party payor settlements.

Accounts payable and accrued expenses increased \$83.7 million or 33.9% from 2020 to 2021. The increase includes \$33.6 million related to the timing of payment for medical supplies, pharmaceuticals, services, and capital projects as well as \$51.8 million related to payments due to the University and OSUP for Supplies and Services. Accounts payable and accrued expenses increased \$53.2 million or 27.5% from 2019 to 2020. The increase is primarily related to the timing of payment for medical supplies, PPE, and pharmaceuticals due to the recovery of surgical and procedural volumes during the COVID-19 phased-in reopening plan as well as the timing of payment for construction projects. Accounts payable and accrued expenses increased \$4.2 million or 2.2% from 2018 to 2019 related to medical supplies, service contracts, and construction projects.

The Health System paid back \$20.1 million in retractions related to the Medicare Advance Payment Program in 2021.

Accrued salaries and benefits represents the days in the month the Health System has accrued for salaries and benefits after the most recent bi-weekly payroll. Accrued salaries and benefits decreased \$14.2 million

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or 17.1% from 2020 to 2021. The decrease is related to the timing of payment to the University for two bi-weekly payroll periods in 2021 as compared to three bi-weekly payroll periods in 2020.

Assets Whose Use is Limited

Assets whose use is limited is comprised of funds set aside for future capital expansion projects and research initiatives to support clinical care and the academic mission of the Wexner Medical Center.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Assets whose use is limited</u>			
Funds held for capital replacement	\$ 91,925	\$ 91,347	\$ 89,105
Funds held for debt retirement	28,031	28,031	28,031
Funds held for research initiatives	20,000	20,000	20,000
Total Assets Limited as to Use	\$ 139,956	\$ 139,378	\$ 137,136

Long-Term Investment Pool

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Long-Term Investment Pool</u>			
Long-term investment pool - Cost Value	\$ 286,568	\$ 276,389	\$ 266,700
Unrealized Gain/(Loss)	84,566	5,931	16,261
Long-Term Investment Pool	\$ 371,134	\$ 282,320	\$ 282,961

The Health System has an investment interest in the University's Long-Term Investment Pool to support capital projects, research initiatives, clinical care, and the academic mission. The Long-term investment pool – Cost Value increased \$10.2 million in 2021 and \$9.7 million in 2020 as a result of the Health System reinvesting Interest Income earnings into the pool. The Health System recorded a net increase or unrealized gain of \$78.6 million in the market value of investments in 2021. The net decrease or unrealized loss in the market value of investments during fiscal year 2020 was \$10.3 million and \$9.2 million in 2019.

Capital Assets

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Capital Assets - Net</u>			
Property, Plant, and Equipment	\$ 3,171,193	\$ 2,868,564	\$ 2,719,441
Construction In Progress	529,522	332,195	138,526
Accumulated Depreciation	(1,679,732)	(1,504,204)	(1,370,460)
Capital Assets - Net	\$ 2,020,983	\$ 1,696,555	\$ 1,487,507

The growth in property, plant, and equipment in 2021 is primarily due to the completion of the new hospital parking garage, the central sterile processing facility, a faculty office building, and operating room expansion at University Hospital East. The growth in construction in progress is due to costs associated with the new inpatient hospital and regional ambulatory sites, along with other facility renovations.

The growth in property, plant, and equipment in 2020 is primarily due to the purchase of the land and building that was previously leased for the current operation of the Eye and Ear Institute as well as facility renovations, medical equipment, and information technology. The growth in construction in progress is due to costs associated with the new inpatient hospital and parking garage, a central sterile processing facility, regional ambulatory sites, and a faculty office building along with other facility renovations.

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Other Non-current Assets and Non-current Liabilities

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Other Non-Current Assets</u>			
Investment in subsidiaries	\$ 20,101	\$ 17,723	\$ 14,186
Net OPEB Asset	105,185	-	-
Long term pledges receivable, net	5,133	7,921	2,326
Long term receivables and other noncurrent assets	24,988	8,321	7,995
Total Other Non-Current Assets	155,407	33,965	24,507

The Health System has an equity investment interest in MedFlight, a community based air ambulance/intensive care transport authority as well as an investment interest with partial ownership in Madison County Hospital, a community hospital. As of June 30, 2021, the investment in subsidiaries was \$20.1 million in 2021, \$17.7 million in 2020 and \$14.2 million in 2019. The change in investment balance reflects the Health System's total equity interest in these investments. Long term receivables and other noncurrent assets increased \$16.7 million from 2020 to 2021. This increase reflects a new agreement with a community hospital client to implement access to the Epic electronic medical record via a hosting relationship to better serve the needs of the client's community. Long term receivables and other non-current assets also include endowment assets of \$7.7 million in 2021, \$5.5 million in 2020, and \$5.7 million in 2019.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Other Non-Current Liabilities</u>			
Third-party payor settlements	\$ 90,402	\$ 59,516	\$ 49,374
Compensated absences	83,738	74,806	63,470
Net pension liability	834,994	1,093,340	1,435,041
Net OPEB liability	-	789,145	701,844
Unearned Revenue	29,522	-	-
Other noncurrent liabilities	2,621	2,621	2,657
Total Other Non-Current Liabilities	\$ 1,041,277	\$ 2,019,428	\$ 2,252,386

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 2019 to 2021 reflects management's estimate for previous years Medicare and Medicaid cost report settlements. 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 2019 to 2021 is attributable to growth in accrued paid time off due to the slowdown of vacation usage by the workforce as a result of the Covid-19 pandemic.

Unearned revenue for the Health System totaled \$29.5 million in 2021. Included in unearned revenue is the recognition of the Epic hosting agreement of \$17.8 million with the community hospital client previously discussed. In collaboration with Nationwide Children's Hospital, the James is planning to construct a building of which a portion will be dedicated to the provision of proton therapy services primarily for clinical treatment but also for research purposes. Unearned revenue includes \$10.8 million of funding from Nationwide Children's Hospital for construction of the building.

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
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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, 2021, 2020 and 2019 is summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
Net Position			
Invested in capital assets, net of related debt	1,426,904	1,049,103	787,918
Restricted, nonexpendable	7,690	5,517	5,716
Restricted, expendable	32,645	24,728	15,310
Unrestricted	424,762	(377,049)	(169,163)
Net Position	\$ 1,892,001	\$ 702,299	\$ 639,781

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. In 2021, Net Position increased \$1.2 billion compared to 2020 due to the overall increase in hospital inpatient patient acuity and a strong service mix. Included in the change in Net Position is a \$66.4 million benefit related to GASB 68 as a result of the decrease to OPERS net pension liabilities as well a \$612.5 million benefit to GASB 75 primarily due to changes in OPERS benefit terms.

In 2020, Net Position increased \$62.5 million relative to 2019 due to strong clinical operations and growth in surgical cases prior to the COVID-19 pandemic as well as increased investment in capital assets, effective cost containment, and growth in operating cash.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position represents the Health System's results of operations. A comparison of revenues, expenses and changes in net position for the years ended June 30, 2021, 2020 and 2019 is as follows:

	<u>Fiscal Year June 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Income and Change in Net Position</u>			
Operating Revenues	\$ 3,940,110	\$ 3,451,914	\$ 3,433,075
Operating Expenses	2,683,427	3,362,656	3,222,872
Operating Income	1,256,683	89,258	210,203
Non-Operating Revenues (Expenses)	94,958	133,813	(29,130)
Income Before Other Changes in Net Position	1,351,642	223,071	181,073
Medical Center investments	\$ (183,960)	\$ (173,749)	\$ (150,000)
Capital contributions	19,848	13,395	8,707
Additions to permanent endowments	2,173	(199)	122
Other Changes in Net Position	(161,939)	(160,553)	(141,171)
Increase in Net Position	\$ 1,189,703	\$ 62,518	\$ 39,902
Net Position - Beginning of Year	702,299	639,781	599,879
Net Position - End of Year	\$ 1,892,001	\$ 702,299	\$ 639,781

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Operating Revenues

In 2021, total operating revenues grew \$488.2 million or 14.1% over the prior fiscal year. The increase is primarily related to the recovery of surgical and procedural volumes as well as increased acuity for inpatient hospital volume. Operating revenues also included a \$39.8 million increase for the Specialty Retail Pharmacy from 2020 to 2021 related to increased volumes across all dispensing locations as well as \$21.6 million for Covid-19 lab testing. In addition, the Health System recognized \$37.7 million in CCA Directed Payments in operating revenues as a result of an assessment from the Ohio Department of Medicaid related to Covid-19 related emergency spending measures.

Total operating revenues grew \$18.8 million or 0.5% from 2019 to 2020. As of the end of February 2020 and prior to Covid-19, Inpatient Admissions, Total Surgeries, Outpatient Visits, and Radiation Oncology were all above prior year by 4.5%, 8.7%, 12.0%, and 18.5%, respectively. The Covid-19 pandemic and the temporary suspension of performance of elective surgeries and procedures significantly impacted Health System operating revenue.

Approximately 88% of total operating revenues are from patient care activities. Other Operating Revenues include revenue from reference labs, cafeteria operations, rental agreements and other non-patient services. Due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients, the Health System operates a Specialty Retail Pharmacy dedicated to improving patient care by easing the challenges of managing medications. The Specialty Retail Pharmacy contributed \$204.9 million to Health System operating revenues in 2021, \$166.7 million 2020, and \$127.6 million 2019. Other Operating Revenues also includes a portion of the revenue shared with Nationwide Children’s Hospital for the management of the Neonatal Intensive Care Unit (NICU) located at the Health System. The goal of this managed unit is to standardize the care and quality outcomes of all the neonatal patients in Central Ohio. The NICU contributed \$13.9 million of operating revenues in 2021, \$17.8 million of operating revenues in 2020, and \$15.9 million in 2019. In 2019, the Health System enrolled in the Care Innovation and Community Improvement Program (CICIP). CICIP was developed to increase alignment of quality improvement strategies and goals between the State, Managed Care Organizations (MCO), and both public and nonprofit hospital agencies. The Health System recognized \$70.2 million in Other Operating Revenues related to CICIP in 2021 compared to \$52.6 in 2020 and \$52.5 million in 2019.

	Fiscal Year June 30,		
	2021	2020	2019
	<u>(in thousands)</u>		
<u>Revenues</u>			
Net patient service revenue less provision for bad debts	\$ 3,462,578	\$ 3,093,961	\$ 3,116,216
Other Operating Revenues	477,532	357,953	316,859
Total Operating Revenue	\$ 3,940,110	\$ 3,451,914	\$ 3,433,075

Net Patient Service Revenue reflects charges to patients for clinical services provided, net of contractual allowances and other discounts, and provision for bad debts, charity and denials. 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 The Center for Medicare and Medicaid Services (CMS) -- Medicare - the federal program for the aged and disabled and Medicaid – the state program covering various underserved constituents and Managed Care – healthcare coverage typically provided by employers.

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 low income patients, transplant costs, and cases with unusually high cost of care. The James is one of eleven cancer hospitals nationwide exempt from the prospective payment system. Medicare reimburses The James reasonable inpatient costs of care (subject to per case limit – TEFRA limit). The final payments for The James inpatient services are

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determined through annual cost reports. Medicare pays The James for outpatient services at costs discounted by a payment to cost factor (PCR) each year. In 2021, outpatient costs were paid at 88% PCR.

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2021. 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 regulation changes 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 dual eligible Medicare enrollees. Medicaid pays for inpatient and outpatient services on prospectively determined rates with provisions for cases incurring unusually high costs. The James, as an exempt hospital for Medicare, is reimbursed for inpatient and outpatient services based upon Medicaid's predetermined percent of charges 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 provide health insurance coverage for Ohio's working poor. The Health System has seen a relatively consistent insured population as a result of Medicaid expansion.

Contracts with Managed Care organizations are negotiated and include several 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 patients eligible for Programs for Children, Families, Pregnant Women, and eligible under the Aged, Blind and Disabled Program enroll in a Medicaid Managed Care plan.

The Health System also has contractual relationships with other payors and provides much of the acute care needs for The Ohio Department of Corrections. The Health System also provides care for various Bureau of Worker's Compensation managed care payors, 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. As of July 1, 2013, any pregnant inmate is covered by Medicaid for inpatient services. The remaining inmate population shifted to Medicaid for inpatient 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 over the past several years. The Payor Mix for the 2021, 2020 and 2019 fiscal years are as follows:

Payor Mix	Fiscal Year June 30,		
	2021	2020	2019
Managed Care	36.9%	37.6%	37.9%
Medicare	38.7%	37.7%	38.5%
Medicaid	19.4%	19.4%	19.1%
Self Pay	1.6%	1.6%	1.7%
Other	3.4%	3.7%	2.8%
	100.0%	100.0%	100.0%

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Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2021, 2020 and 2019 is summarized as follows:

	Fiscal Year June 30,		
	2021	2020	2019
	<u>(in thousands)</u>		
Expenses			
Salaries and benefits	\$ 1,527,560	\$ 1,466,527	\$ 1,388,522
Supplies and drugs	1,101,797	950,416	873,397
Purchased services	428,023	393,133	378,648
Depreciation	176,212	170,775	164,453
Pension (benefit) expense	(66,358)	136,792	225,792
OPEB (benefit) expense	(612,473)	127,789	77,522
Other expenses	128,666	117,224	114,538
Total Operating Expenses	\$ 2,683,427	\$ 3,362,656	\$ 3,222,872

Operating expenses decreased \$679.2 million or 20.2% from 2020 to 2021. The decrease in operating expenses is primarily attributed to the combined pension and OPEB benefit recognized in 2021. Total pension and OPEB benefit recognized in 2021 by the Health System including employer contributions totaled \$531.5 million. Total pension and OPEB benefit included of \$147.4 million of employer contributions, \$66.4 million benefit related to GASB 68 accruals, and \$612.5 million benefit related to GASB 75 accruals.

The growth in salaries and benefits from 2020 to 2021 is reflective of the recovery of volume due to the Covid-19 pandemic. Supplies and drugs increased \$151.4 million or 15.9%. The increase in supplies was a result of a strong transplant year for heart and lung as well as an increase in intensity for surgical and procedural volume. The Health System performed approximately 483,000 Covid-19 tests that resulted in increased lab costs for the system. The growth in drugs is due to increased volumes at the James as well as the Specialty Retail Pharmacy. Purchased services grew \$34.9 million or 8.9% in 2021 reflecting increased hospital franchise fees associated with increased payments in the Cost Coverage Add-on (CCA) and Directed Payments discussed previously as well as higher cleaning and advertising costs. The increase in hospital franchise fees is a result of additional assessments due to Covid-19 related emergency spending measures. The Health System received \$37.7 million in CCA Directed Payments that were recognized in operating revenues as noted above.

Operating expenses increased \$139.8 million or 4.3% from 2019 to 2020. The growth in salaries and benefits from 2019 to 2020 is reflective of the volume growth noted above prior to COVID-19. The Health System experienced reduced medical supply and pharmaceutical costs in the months of March and April as a result of the cancellation or delay of elective surgeries and procedures. As a result of COVID-19, the Health System experienced a significant increase in demand for PPE, diagnostic testing, medical equipment and other supplies associated with patient care and staff safety. Solid organ transplant and Specialty Retail Pharmacy volumes increased from 2019 to 2020, also contributing to increases in supply and drug expense. Purchased services grew 3.8% in 2020 reflecting higher hospital franchise fee, legal services, and advertising costs. Total pension and OPEB expense recognized in 2020 by the Health System including employer contributions totaled \$403.6 million. Total pension and OPEB expense included of \$139.0 million of employer contributions, \$136.8 million in GASB 68 accruals, and \$127.8 million in GASB 75 accruals.

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 5.2% from 2020 to 2021. The Health System employed 14,400 full time equivalent employees (FTEs) in 2021, 14,500 in 2020, and 14,300 in 2019.

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Non-Operating Revenue and Expenses

The Health System incurred a total of \$29.5 million in interest cost in 2021 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 \$31.9 and \$35.0 million of interest cost in 2020 and 2019, respectively.

The Health System has an investment interest 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 2021 includes \$78.6 million unrealized gain and \$10.2 million of interest income related to the Long-Term Investment Pool. This compares to a \$10.3 million unrealized loss and \$9.7 million of interest income in 2020 and \$9.2 million unrealized loss and \$5.2 million of interest income in 2019.

Income Before Other Changes in Net Position

Income Before Other Changes In Net Position was \$1.4 billion in 2021 compared to \$223.1 million in 2020 and \$181.1 million in 2019. Impacts to Income Before Other Changes In Net Position include pension benefit of \$66.4 million in 2021 compared to pension expense of \$136.8 million in 2020 and \$225.8 million in 2019. This reflects the annual accounting for GASB 68. OPEB benefit was \$612.5 million in 2021 compared to OPEB expense of \$127.8 million in 2020 and \$77.5 million in 2019, reflecting annual accounting for GASB 75. Income Before Other Changes in Net Position for Clinical Activities grew \$184.9 million from 2020 to 2021 which reflects higher acuity with hospital inpatient volumes, good labor management, and the overall recovery of volume that was impacted as a result of the Covid-19 pandemic.

Other Changes in Net Position

The Health System's other changes in net position for fiscal year 2021 includes Medical Center Investments of \$184.0 million dedicated to research, education, and other programs at the Medical Center. Medical Center Investments totaled \$173.7 million in 2020 and \$150.0 million in 2019. Other changes in net position include capital contributions of \$19.8 million in 2021, \$13.4 million in 2020, and \$8.7 million in 2019 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, 2021, 2020 and 2019 is summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>		
<u>Cash Flows</u>			
Receipts from patients and third-party payors	\$ 3,369,773	\$ 3,486,936	\$ 3,120,684
Payments to and on behalf of employees	(1,587,265)	(1,497,898)	(1,424,039)
Payments to vendors for supplies and services	(1,359,279)	(1,243,938)	(1,192,514)
Other operating activities	215,767	222,539	196,722
Net cash provided by operating activities	<u>638,996</u>	<u>967,639</u>	<u>700,853</u>
Cash flows from non-capital financing activities	41,571	143,892	1,352
Cash flows used in capital and related financing activities	(563,316)	(449,803)	(280,279)
Cash flows used in investing activities	(171,082)	(161,166)	(166,700)
Net increase in cash	<u>(53,831)</u>	<u>500,562</u>	<u>255,226</u>
Cash at beginning of year	\$ 1,488,144	\$ 987,582	\$ 732,356
Cash at end of year	<u>\$ 1,434,313</u>	<u>\$ 1,488,144</u>	<u>\$ 987,582</u>

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

Net cash provided by operating activities totaled \$639.0 million in 2021 compared to \$967.6 million in 2020 and \$700.9 million in 2019. Net cash provided by operating activities includes \$70.2 million related to the Care Innovation and Community Improvement Program. Net cash provided by non-capital and financing activities totaled \$41.6 million in 2021 which includes \$22.6 million in Provider Relief Funds and \$15.6 million of FEMA recovery as a result of the impact of Covid-19 on the Health System clinical operation. Net cash used in capital and related financing activities totaled \$563.3 million in 2021, an increase of \$113.5 million compared to 2020 as a result of purchases of Health System capital assets and the payment of debt obligations. Net cash used in investing activities totaled \$171.1 million related to the reinvestment of funds back into the Medical Center for research, education, and programs at the Medical Center as well as investment activity for the Long-term Investment pool.

Future Direction

Healthcare at The 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 is continuing its vision to deliver unparalleled care and meet anticipated future growth, embarking on a plan to expand its care with new, large outpatient care facilities planned for New Albany, Dublin, and Powell. The comprehensive facilities are part of a new suburban outpatient care program that supports growth in the region and excellence in academic health care will include ambulatory surgery, endoscopy, primary care, specialty medical and surgical clinics and related support space.

A new inpatient hospital scheduled to open in early 2026 will be a 1.9 million square foot facility and the largest single facilities project ever undertaken at The Ohio State University. The new tower will enhance research, clinical training and patient care. The hospital will have up to 820 beds in private rooms, 60 neonatal intensive care unit bassinets, 24 floors, an emergency department, imaging suites, operating rooms and critical care and medical/surgical beds. Plans also include an indoor café, a conservatory garden, outdoor park areas and conference facilities. The building itself will be a glass and brick structure designed to maximize light in patient rooms to improve outcomes.

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)

	<u>Year Ended June 30, 2021</u>	<u>Year Ended June 30, 2020</u>
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	\$ 1,434,313	\$ 1,488,144
Patient accounts receivable, net of estimated uncollectibles of \$87,210 in 2021 and \$65,364 in 2020	421,944	337,764
Pledge receivables, net	2,735	3,231
Due from third-party	1,237	5,020
Other receivables	150,508	50,089
Inventory	66,044	56,789
Prepaid expenses and other current assets	22,672	33,248
Total current assets	<u>2,099,453</u>	<u>1,974,285</u>
Non-current assets:		
Assets whose use is limited	139,956	139,378
Long-term investment pool	371,134	282,320
Investment in subsidiaries	20,101	17,723
Capital assets, net	2,020,983	1,696,555
Net OPEB Asset	105,185	-
Long term pledge receivables, net	5,133	7,921
Long term receivables and other non-current assets	24,988	8,321
Total non-current assets	<u>2,687,480</u>	<u>2,152,218</u>
Total assets	<u>4,786,933</u>	<u>4,126,503</u>
Deferred outflows:		
Pension	71,310	127,655
OPEB	52,097	126,814
Other	424	424
Total deferred outflows	<u>123,831</u>	<u>254,893</u>
Total assets and deferred outflows	<u>\$ 4,910,764</u>	<u>\$ 4,381,396</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 330,544	\$ 246,819
Medicare Advance Payment Program	254,854	274,915
Accrued salaries and benefits	68,747	82,925
Compensated absences	7,165	6,329
Third-party payor settlements	29,387	51,303
Current portion of long-term debt	54,144	53,182
Total current liabilities	<u>744,841</u>	<u>715,473</u>
Non-current liabilities:		
Long-term debt less current portion	539,935	594,270
Compensated absences less current portion	83,738	74,806
Third-party payor settlements less current portion	90,402	59,516
Net pension liability	834,994	1,093,340
Net OPEB liability	-	789,145
Unearned Revenue	29,522	-
Other non-current liabilities	2,621	2,621
Total non-current liabilities	<u>1,581,212</u>	<u>2,613,698</u>
Total liabilities	<u>2,326,053</u>	<u>3,329,171</u>
Deferred inflows:		
Pension	373,126	237,483
OPEB	319,584	112,443
Total deferred inflows	<u>692,710</u>	<u>349,926</u>
Total liabilities and deferred inflows	<u>3,018,763</u>	<u>3,679,097</u>
Net Position		
Net investment in capital assets	1,426,904	1,049,103
Restricted:		
Nonexpendable	7,690	5,517
Expendable	32,645	24,728
Unrestricted	424,762	(377,049)
Total net position	<u>1,892,001</u>	<u>702,299</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,910,764</u>	<u>\$ 4,381,396</u>

The accompanying notes are an integral part of these financial statements

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

	<u>Year Ended June 30, 2021</u>	<u>Year Ended June 30, 2020</u>
Operating Revenues		
Net patient service revenue	\$ 3,540,361	\$ 3,170,416
Provision for bad debts	<u>(77,783)</u>	<u>(76,455)</u>
Net patient service revenue less provision for bad debts	3,462,578	3,093,961
Other revenue	<u>477,532</u>	<u>357,953</u>
Total Operating Revenue	3,940,110	3,451,914
Operating Expenses		
Salaries and benefits	1,527,560	1,466,527
Supplies and drugs	1,101,797	950,416
Purchased services	428,023	393,133
Depreciation	176,212	170,775
Pension (benefit) expense	(66,358)	136,792
OPEB (benefit) expense	(612,473)	127,789
Other expenses	<u>128,666</u>	<u>117,224</u>
Total Expenses	2,683,427	3,362,656
Operating Income	1,256,683	89,258
Non-Operating Revenues (Expenses)		
Interest expense	(29,508)	(31,941)
Income from investments	102,259	22,272
Gifts	120	(78)
FEMA	15,608	-
Provider Relief Funds	5,751	143,301
Other non-operating revenues (expenses)	<u>728</u>	<u>259</u>
Total Non-Operating Expenses	94,958	133,813
Income Before Other Changes in Net Position	1,351,641	223,071
Other Changes in Net Position		
Medical Center investments	(183,960)	(173,749)
Capital contributions	19,848	13,395
Additions to permanent endowments	<u>2,173</u>	<u>(199)</u>
Total Other Changes in Net Position	(161,939)	(160,553)
Increase in Net Position	1,189,702	62,518
Net Position - Beginning of Year	702,299	639,781
Net Position - End of Year	<u>\$ 1,892,001</u>	<u>\$ 702,299</u>

The accompanying notes are an integral part of these financial statements

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

	Year Ended June 30, 2021	Year Ended June 30, 2020
Cash flows from operating activities		
Receipts from patients and third-party payors	\$ 3,389,834	\$ 3,212,021
Medicare Advance Payment Program	(20,061)	274,915
Other receipts	360,000	355,073
Payments to and on behalf of employees	(1,587,265)	(1,497,898)
Payments to vendors for supplies and services	(1,359,279)	(1,243,938)
Payments on other expenses	(144,233)	(132,534)
Net cash provided by operating activities	<u>638,996</u>	<u>967,639</u>
Cash flows from non-capital financing activities		
Non-exchange grant receipts - Provider Relief Funds	22,598	143,301
FEMA Grant Receipts	15,608	-
Gift receipts for current use	1,192	790
Additions to permanent endowments	2,173	(199)
Net cash provided by non-capital financing activities	<u>41,571</u>	<u>143,892</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(504,662)	(375,806)
Repayments of long-term debt	(53,372)	(52,137)
Cash paid for interest	(29,508)	(31,941)
Contributions and transfers for property acquisitions	24,226	10,081
Net cash used in capital financing activities	<u>(563,316)</u>	<u>(449,803)</u>
Cash flows from investing activities		
Medical Center investments	(183,960)	(173,749)
Investment Income, net of related expenses	23,057	22,272
Purchase of long-term investments	(10,179)	(9,689)
Net cash used in investing activities	<u>(171,082)</u>	<u>(161,166)</u>
Net increase in cash and cash equivalents	(53,831)	500,562
Cash and cash equivalents at beginning of year	1,488,144	987,582
Cash and cash equivalents at end of year	<u>\$ 1,434,313</u>	<u>\$ 1,488,144</u>
Reconciliation of operating income to net cash provided in operating activities		
Operating Income	1,256,683	89,258
Adjustments to reconcile operating income to net cash provided by operations:		
Pension (Benefit) Expense	(66,358)	136,792
OPEB (Benefit) Expense	(612,473)	127,789
Other Expense	-	86
Depreciation	176,212	170,775
Changes in operating assets and liabilities:		
Patient accounts receivable	(84,180)	75,335
Medicare Advance Payment Program	(20,061)	274,915
Other receivables	(115,645)	(1,836)
Inventories	(9,255)	(11,535)
Prepaid expenses and other assets	10,576	(8,475)
Accounts payable/accrued expenses	69,415	53,175
Accrued salaries and benefits	(13,342)	7,575
Third party payor settlements	8,971	41,454
Compensated absences	8,932	12,367
Other liabilities	29,521	(36)
Net cash provided by operating activities	<u>638,996</u>	<u>967,639</u>
Non Cash Transactions		
Unrealized loss (gain) on investments	(78,635)	10,330
The accompanying notes are an integral part of these financial statements.		

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

NOTE 1 – ORGANIZATION

The Ohio State University Wexner Medical Center Health System (the "Health System" or the "System") operates under the governance of The Ohio State University Board of Trustees. The Health System is comprised of a series of departments representing the financial activities of University Hospital, East Hospital, Brain and Spine Hospital, Richard M. Ross Heart Hospital, Harding Hospital, Dodd Rehabilitation Hospital, Arthur G. James Cancer Hospital and Richard J. Solove Research Institute and various Ambulatory Clinics and Outreach Sites. 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 to the current year's presentation.

New Accounting Pronouncements:

In order to provide temporary relief to governments in light of the COVID-19 pandemic, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement which was issued in May 2020 and is effective immediately – extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The effective dates of the accounting pronouncements listed below have been updated in accordance with Statement No. 95.

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 June 15, 2021 (FY2022).

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. Due to global reference rate reform, the London Interbank Offered Rate (LIBOR) is expected to cease to exist at the end of 2021. This standard addresses accounting and financial reporting implications that result from the replacement of an IBOR. The standard is effective for periods beginning after December 31, 2021 (FY2023).

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This standard addresses P3s and APAs and amends current guidance in GASB 60, Accounting and Financial Reporting for Service Concession Arrangements. In general, the

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

standard applies the right-of-use model set forth in GASB 87 to P3 arrangements and provides accounting and disclosure guidance for both transferors and operators of governmental assets. The standard is effective for periods beginning after June 15, 2022 (FY2023).

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement requires recognition of a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (FY2023), and all reporting periods thereafter.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This Statement clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. It also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. The provisions that limit the applicability of the "absence of a governing board" and "financial burden" criteria to arrangements other than defined contribution plans would be effective immediately; other provisions would be effective for reporting periods beginning after June 15, 2021.

The effective dates of the accounting pronouncements listed above have been updated in accordance with Statement No. 95. Health System management is currently assessing the impact that implementation of GASB Statements No. 87, 90, 93, 94, 96 and 97 will have on the Health System's financial statements.

Implementation of GASB Statement No. 90

In fiscal year 2021, the Health System implemented GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. There was no impact on the Health System's financial statements as there were no majority equity interests meeting the criteria identified for the Health System.

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.

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

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 \$1,434,313 at June 30, 2021 and \$1,488,144 at June 30, 2020 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 payors: Medicare and Medicaid. Payments from these payors are based on a combination of prospectively determined rates and retrospectively settled amounts. Many of the payment calculations require the use of estimates until the cost reports are audited and reach a final settlement. 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 may result in further adjustments by the payors. Provisions for anticipated adjustments have been made in the financial statements. Certain adjustments and payment rates of third parties in previously settled cost reports are being appealed. Any 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 Ohio State East Hospital 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

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

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 cost report settlement, although Medicaid Cost 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, 2021. 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, 2016 and June 30, 2015 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, 2017 and June 30, 2016 for Medicaid.

In addition to cost report settlements, government and managed care payors are increasingly retroactively reviewing claims for medical necessity, inpatient/outpatient status, charge accuracy, documentation, provider-based requirements and non-allowable charges. Annual audits are completed related to HCAP payments. Electronic Health Records payment audits are also being completed by CMS and the Office of the Inspector General (OIG) to assure accuracy of payments in prior years for both Medicare and Medicaid. The Health System reserves include amounts to cover potential recoveries related to these audits.

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

Contributions and Pledges Receivable:

The University receives pledges and bequests of financial support from corporations, foundations and individuals, including amounts relating to 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.

Pledges receivable are reported net of allowance for uncollectable pledges. As estimated by management, the allowance for uncollectable pledges totaled \$211 at June 30, 2021 and \$332 at June 30, 2020. 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, personal protective equipment, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
	<u>(in thousands)</u>	
Funds held for capital replacement	\$ 91,925	\$ 91,347
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
Total	\$ 139,956	\$ 139,378

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

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, 2021 was \$88,814. 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, 2021, a cumulative unrealized gain on investments totaled \$84,566. 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 \$7,690 and \$5,516 at June 30, 2021 and 2020, respectively.

Investments in Subsidiaries:

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

Capital Assets:

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

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

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

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. Net patient service revenue for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
Total patient service revenue	\$ 10,777,723	\$ 9,758,938
Contractual allowances and other discounts	(7,237,362)	(6,588,522)
Provision for bad debts	(77,783)	(76,455)
Net patient service revenue	<u><u>\$ 3,462,578</u></u>	<u><u>\$ 3,093,961</u></u>

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 2021 and 2020, respectively, is as follows:

	<u>Third Party</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2021			
Patient service revenue (net of contractual allowances and other discounts)	<u>\$ 3,491,483</u>	<u>\$ 48,878</u>	<u>\$ 3,540,361</u>
2020			
Patient service revenue (net of contractual allowances and other discounts)	<u>\$ 3,119,215</u>	<u>\$ 51,201</u>	<u>\$ 3,170,416</u>

Charity Care:

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

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

The cost of providing charity for the fiscal years 2021 and 2020 are as follows:

	2021	2020
Total cost of charity care	\$ 51,606	\$ 58,250
Less Health Care Assurance Program support	(468)	(5,661)
Net cost of charity care	<u><u>\$ 51,138</u></u>	<u><u>\$ 52,589</u></u>

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

Other Revenue

Other Revenue is composed of items such as reference labs, cafeteria operations, rental agreements, retail pharmacy operations, 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 8 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY.

NOTE 3 – COVID-19 AND CARES ACT ASSISTANCE

On March 11, 2020, The World Health Organization designated Covid-19 and subsequently has had a significant impact on the results of the Health System operations. The impact had a substantial decrease to inpatient admissions, outpatient visits, and elective procedures causing considerable decrease to hospital revenue. Health System expenses were also significantly impacted due to the purchases of Personal Protective Equipment (PPE), lab equipment, labs test, and constructing alternate care sites to care for COVID-19 patients and prepare for the anticipated surge.

In response to the impact on the Healthcare environment from the coronavirus pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020. It includes provisions to support healthcare providers and patients in the form of grants, payments for uninsured patients, and changes to Medicare and Medicaid payments, among other types of relief.

Health Care Provider Relief Funds:

The CARES Act provided \$100 billion to the Public Health and Social Services Emergency Fund to establish a Provider Relief Fund. In 2020, Health and Human Services (HHS) distributed \$143,301 to the Health System to be used to prevent, prepare for, and respond to Covid-19. These amounts provided to the Health System under CARES Act grant programs were recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met. In 2021 the Health System received and recognized an additional \$22,598 in Provider Relief Funds. The Health System recorded a payable in the amount of \$16,847 related to the Provider Relief Funds due to uncertainties related to multiple revisions of Provider Relief Fund eligibility and reporting requirements.

Medicare Advance Payment Program:

The CARES Act expands the Medicare Accelerated and Advance Payment Program. An accelerated or advance payment was intended to provide necessary funds for the disruption in claims submission and/or claims processing. These expedited payments can also be offered in circumstances such as national emergencies or natural disasters to accelerate cash flow to the impacted healthcare providers and suppliers. The Health System received advance payments under this program totaling \$274,915. Amounts provided under the Medicare Accelerated and Advance Payment Program are considered short-term loans and are reported as current liabilities in the Statement of Net Position. In 2021, the Health System paid back \$20,061 in retractions related to the Medicare Accelerated and Advance Payment Program.

FEMA Public Assistance Program:

The Health System filed a Request for Public Assistance (RPA) with FEMA for costs associated with Emergency Protective Measures in response to Covid-19. Qualifying activities included purchases of PPE, signage and educational materials, reimbursement for nursing overtime labor, purchase of ventilators, as well as standing up testing sites, surge units, and a field hospital for additional hospital capacity. In 2021, FEMA obligated and approved four projects with a total amount of \$15,608. These amounts provided to the Health System from FEMA were recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements were met.

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

NOTE 4 – 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 6,013 Board authorized funds and 205 pending 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, fixed income securities and alternative investment funds. The pool operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for the generation of a predictable stream of annual distribution to support the Health System's mission.

The University holds investments in limited partnerships, such as hedge, private equity, venture capital and other alternative investment funds, which are carried at estimated fair value provided by the management of these limited partnerships. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Investments in these limited partnerships are fair valued based on the University's proportional share of the net asset value of the total fund. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

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

At June 30, 2021, the original cost and additions and the market value of the Health System's operating investments in the pool were \$286,568 and \$276,389 respectively.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	\$ 215,561	6,505	-	\$ 222,066
Buildings	1,226,464	186,704	-	1,413,168
Leasehold Improvements	31,820	1,870	-	33,690
Equipment - fixed	581,008	36,850	-	617,858
Equipment - moveable	813,711	71,020	320	884,411
Construction in progress	332,195	501,494	304,167	529,522
	3,200,759	804,443	304,487	3,700,715
Less accumulated depreciation	1,504,204	175,831	303	1,679,732
Capital assets, net	\$ 1,696,555	628,612	304,184	\$ 2,020,983

Capital assets placed in service in 2021 were \$304,167. The capital assets placed in service additions are primarily from the completion of the new hospital parking garage, the central sterile processing facility, a faculty office building, and operating room expansion at University Hospital East. Other additions include minor facility renovations and medical equipment purchases. The growth in construction in progress is due to costs associated with the new inpatient hospital and regional ambulatory sites, along with other facility renovations.

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

	2020			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Land and Improvements	\$ 200,815	14,746	-	\$ 215,561
Buildings	1,170,261	56,203	-	1,226,464
Leasehold Improvements	31,524	296	-	31,820
Equipment - fixed	550,936	30,072	-	581,008
Equipment - moveable	765,905	86,089	38,283	813,711
Construction in progress	138,526	381,075	187,406	332,195
	<u>2,857,967</u>	<u>568,481</u>	<u>225,689</u>	<u>3,200,759</u>
Less accumulated depreciation	1,370,460	170,774	37,030	1,504,204
Capital assets, net	\$ 1,487,507	397,707	188,659	\$ 1,696,555

Capital assets placed in service in 2020 were \$187,406. The capital assets placed in service additions are primarily from the acquisition of the Eye and Ear Institute, facility renovations, medical equipment, and information technology. The growth in construction in progress is due to costs associated with the new inpatient hospital and parking garage, a central sterile processing facility, regional ambulatory sites, and a faculty office building along with other facility renovations.

NOTE 6 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2021 is summarized as follows:

	2021			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2015, 4.75% through 2031	\$ 6,366	\$ -	\$ 484	\$ 5,882
2013, 4.75% through 2032	333,349	-	21,120	312,229
2010, 4.95% through 2031	218,566	-	16,618	201,948
2008, 3.83%-4.03% through 2029	42,233	-	4,253	37,980
2005, 3.83%-4.03% through 2026	29,535	-	5,242	24,293
2003, 4.32%-4.57% through 2024	10,456	-	3,057	7,399
1999, 5.14% through 2030	4,054	-	371	3,683
Other Financing:				
2016 Master Lease, 1.67% through 2021	1,092	-	871	221
2016 Master Lease, 2.058% through 2021	796	-	451	345
Mgmt Svc , 4.38% through 2022	289	-	190	99
2013, 4.50% through 2021	286	-	286	-
2012, 2.25%-4.00% through 2021	-	-	-	-
2010, 3.65%-5.84% through 2021	430	-	430	-
Interim University financing	-	-	-	-
Total Long Term Obligations	647,452	-	53,373	594,079
Less Current Portion of Long-Term Debt	53,182	54,144	53,182	54,144
Net Long Term Debt	\$ 594,270	\$ (54,144)	\$ 191	\$ 539,935

The Health System received no additions to debt related to University Bonds or Other Financing in fiscal year 2021.

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Long-term debt activity for the year ended June 30, 2020 is summarized as follows:

	2020			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2015, 4.75% through 2031	\$ 6,827	\$ -	\$ 461	\$ 6,366
2013, 4.75% through 2032	353,491	-	20,142	333,349
2010, 4.95% through 2031	234,383	-	15,817	218,566
2008, 3.83%-4.03% through 2029	46,318	-	4,085	42,233
2005, 3.83%-4.03% through 2026	34,568	-	5,033	29,535
2003, 4.32%-4.57% through 2024	13,379	-	2,923	10,456
1999, 5.14% through 2030	4,413	-	359	4,054
Other Financing:				
2016 Master Lease, 1.67% through 2021	1,948	-	856	1,092
2016 Master Lease, 2.058% through 2021	1,238	-	442	796
Mgmt Svc , 4.38% through 2022	471	-	182	289
2013, 4.50% through 2021	1,118	-	832	286
2012, 2.25%-4.00% through 2021	4	-	4	-
2010, 3.65%-5.84% through 2021	1,431	-	1,001	430
Interim University financing	-	-	-	-
Total Long Term Obligations	699,589	-	52,137	647,452
Less Current Portion of Long-Term Debt	51,955	53,182	51,955	53,182
Net Long Term Debt	\$ 647,634	\$ (53,182)	\$ 182	\$ 594,270

The Health System received no additions to debt related to University Bonds or Other Financing in fiscal year 2020.

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. The Health System received no additions to debt in 2021 and 2020 related to University Bonds.

Other Financing

The Health System received no additions to debt in 2021 and 2020 related to Other Financing.

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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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	54,144	27,029	81,173
2023	56,232	24,463	80,695
2024	56,171	21,819	77,990
2025	57,955	19,162	77,117
2026	55,353	16,466	71,819
2027-2031	278,648	41,000	319,648
2032	35,576	922	36,498
	<u>\$ 594,079</u>	<u>\$ 150,861</u>	<u>\$ 744,940</u>

NOTE 7 – 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 2021 and 2020 were \$20,941 and \$19,554, 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, 2021, that have initial or remaining lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2022	\$ 10,229
2023	9,241
2024	8,324
2025	8,275
2026	8,341
2027-2031	33,903
2032-2035	2,259
	<u>\$ 80,572</u>

NOTE 8 - SELF INSURANCE PROGRAM – MEDICAL LIABILITY

On July 1, 2003, the Health System joined with Ohio State University Physicians, Inc., 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 Ohio State University Physicians, Inc. and its Single Member Limited Liability Companies and their Sub Limited Liability Companies created prior to 7/1/2013. Previous to July 1, 2003, the Health System was self-insured through the University's established self-insurance fund for professional and patient 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, 2021. The medical liability contribution expense is recorded as period expense for the Health System. There was no medical liability contribution expense for fiscal years 2021 and 2020.

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, 2020, Oval Limited provides coverage with limits of \$80,000 per occurrence and in the aggregate. The risk written for fiscal years 2021

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and 2020 are fully reinsured by a combination of five reinsurance companies each of which has a minimum A.M. Best rating of A (Berkshire Hathaway Specialty Insurance Company, Endurance Specialty Insurance Ltd., Medical Protective, Arch Specialty Insurance Co., and Liberty Specialty Markets Bermuda Limited).

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 years 2021 and 2020.

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 9 - RETIREMENT PLANS

Health System employees are covered by one of three retirement systems. The 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).

The collective net pension liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2021 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	\$ 24,196,442	\$ 14,500,930	
Proportion of the net pension liability - Health System	0.016%	5.731%	
Proportionate share of net pension liability	\$ 3,912	\$ 831,082	\$ 834,994

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

The collective net OPEB liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2021 are as follows:

	<u>STRS-Ohio</u>	<u>OPERS</u>	<u>Total</u>
Net OPEB (asset) liability - all employers	\$ (1,757,498)	\$ (1,781,580)	
Proportion of the net OPEB (asset) liability - Health System	0.016%	5.888%	
Proportionate share of net OPEB (asset) liability	\$ (284)	\$ (104,901)	\$ (105,185)

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, 2020 are as follows:

	<u>STRS-Ohio</u>	<u>OPERS</u>	<u>Total</u>
Net pension liability - all employers	\$ 22,114,399	\$ 19,553,374	
Proportion of the net pension liability - Health System	0.013%	5.577%	
Proportionate share of net pension liability	\$ 2,933	\$ 1,090,407	\$ 1,093,340

The collective net OPEB liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2020 are as follows:

	<u>STRS-Ohio</u>	<u>OPERS</u>	<u>Total</u>
Net OPEB (asset) liability - all employers	\$ (1,656,240)	\$ 13,812,598	
Proportion of the net OPEB (asset) liability - Health System	0.013%	5.715%	
Proportionate share of net OPEB (asset) liability	\$ (219)	\$ 789,364	\$ 789,145

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
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Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2021:

	<u>STRS-Ohio</u>	<u>OPERS</u>	<u>Total</u>
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 9	\$ 873	\$ 882
Changes in assumptions	210	1,424	1,634
Net difference between projected and actual earnings on pension plan investments	190	-	190
Changes in proportion of university contributions	6	2,673	2,679
Employer contributions subsequent to the measurement date	290	65,634	65,924
Total	\$ 705	\$ 70,605	\$ 71,310
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 25	\$ 39,942	\$ 39,967
Net difference between projected and actual earnings on pension plan investments	-	333,147	333,147
Changes in proportion of university contributions	-	12	12
Total	\$ 25	\$ 373,101	\$ 373,126

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2021:

	<u>STRS-Ohio</u>	<u>OPERS</u>	<u>Total</u>
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 18	\$ -	\$ 18
Changes in assumptions	5	50,363	50,368
Net difference between projected and actual earnings on OPEB plan investments	10	-	10
Changes in proportion of university contributions	-	1,700	1,700
Employer contributions subsequent to the measurement date	-	-	-
Total	\$ 33	\$ 52,063	\$ 52,096
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 57	\$ 93,972	\$ 94,029
Changes in assumptions	270	169,972	170,242
Net difference between projected and actual earnings on OPEB plan investments	-	55,314	55,314
Changes in proportion of university contributions	-	-	-
Total	\$ 327	\$ 319,258	\$ 319,585

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Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2020:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 24	\$ 870	\$ 894
Changes in assumptions	345	59,102	59,447
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion of university contributions	3	3,277	3,280
Employer contributions subsequent to the measurement date	233	63,801	64,034
Total	\$ 605	\$ 127,050	\$ 127,655
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 13	\$ 17,619	\$ 17,632
Net difference between projected and actual earnings on pension plan investments	143	219,685	219,828
Changes in proportion of university contributions	-	22	22
Total	\$ 156	\$ 237,326	\$ 237,482

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2020:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 20	\$ 20	\$ 40
Changes in assumptions	5	124,812	124,817
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion of university contributions	-	1,957	1,957
Employer contributions subsequent to the measurement date	-	-	-
Total	\$ 25	\$ 126,789	\$ 126,814
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 10	\$ 72,164	\$ 72,174
Changes in assumptions	241	-	241
Net difference between projected and actual earnings on OPEB plan investments	14	40,013	40,027
Changes in proportion of university contributions	-	-	-
Total	\$ 265	\$ 112,177	\$ 112,442

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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
2022	421	(70,032)	(69,611)
2023	66	(50,329)	(50,263)
2024	107	(135,368)	(135,261)
2025	87	(46,193)	(46,106)
2026	-	(253)	(253)
2027 and Thereafter	-	(322)	(322)
Total	\$ 681	\$ (302,497)	\$ (301,816)

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
2022	(74)	(139,098)	(139,172)
2023	(66)	(97,648)	(97,714)
2024	(63)	(23,865)	(23,928)
2025	(62)	(6,583)	(6,645)
2026	(15)	-	(15)
2027 and Thereafter	(15)	-	(15)
Total	\$ (295)	\$ (267,194)	\$ (267,489)

The following table provides additional details on the benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension and OPEB liabilities for the retirement systems (information below applies to both pensions and OPEB unless otherwise indicated).

	STRS-Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145

**THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
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Benefit Formula	<p>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. Eligibility changes will be phased in until Aug. 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. Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until Aug. 1, 2023 when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.</p> <p>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, 2021. 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 \$295.8 million or 60% of the total health care costs in fiscal 2020 (excluding deductibles, coinsurance and copayments).</p> <p>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.</p> <p>For the year ended June 30, 2020, STRS Ohio received \$81.9 million in Medicare Part D reimbursements.</p>	<p>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 five years 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 five years of service. For Groups A and B, the annual benefit is based on 2.2% of FAS 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.</p> <p>The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.</p> <p>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</p>
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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
(in thousands)

		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 2020 CAFR. OPERS no longer participates in the Medicare Part D program as of December 31, 2016.
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. Under Ohio law, funds to pay health care costs may be deducted from employer contributions. For the year ended June 30, 2020, 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 2019, 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, 2020	December 31, 2020 (OPEB is rolled forward from December 31, 2019 actuarial valuation date)
Actuarial Assumptions	<p>Valuation Date: June 30, 2020 for pensions and OPEB</p> <p>Actuarial Cost Method: Individual entry age</p> <p>Investment Rate of Return: 7.45%</p> <p>Inflation: 2.50%</p> <p>Projected Salary Increases: 12.50% at age 20 to 2.50% at age 65</p> <p>Cost-of-Living Adjustments: 0% effective July 1, 2017</p> <p>Payroll Increases: 3.00%</p> <p>Health Care Cost Trends: 5.00% to 11.87% initial; 4% ultimate</p>	<p>Valuation Date: December 31, 2020 for pensions; December 31, 2019 for OPEB</p> <p>Actuarial Cost Method: Individual entry age</p> <p>Investment Rate of Return: 7.2% for pensions; 6.0% for OPEB</p> <p>Inflation: 3.25%</p> <p>Projected Salary Increases: 3.25% - 10.75%</p> <p>Cost-of-Living Adjustments: Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 0.50% Simple through 2021, then 2.15% Simple</p> <p>Health Care Cost Trends: 8.50% initial; 3.50% ultimate in 2035</p>

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Mortality Rates	<p>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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Tables, 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.</p>	<p>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.</p>
Date of Last Experience Study	June 30, 2016	December 31, 2015

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(in thousands)

Investment Return Assumptions	<p>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:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Asset Class</th> <th style="text-align: center; border-bottom: 1px solid black;">Target Allocation</th> <th style="text-align: center; border-bottom: 1px solid black;">Long Term Expected Return*</th> </tr> </thead> <tbody> <tr> <td>Domestic Equity</td> <td style="text-align: center;">28.0%</td> <td style="text-align: center;">7.35%</td> </tr> <tr> <td>International Equity</td> <td style="text-align: center;">23.0%</td> <td style="text-align: center;">7.55%</td> </tr> <tr> <td>Alternatives</td> <td style="text-align: center;">17.0%</td> <td style="text-align: center;">7.09%</td> </tr> <tr> <td>Fixed Income</td> <td style="text-align: center;">21.0%</td> <td style="text-align: center;">3.00%</td> </tr> <tr> <td>Real Estate</td> <td style="text-align: center;">10.0%</td> <td style="text-align: center;">6.00%</td> </tr> <tr> <td>Liquidity Reserves</td> <td style="text-align: center;">1.0%</td> <td style="text-align: center;">2.25%</td> </tr> <tr> <td>Total</td> <td style="text-align: center; border-top: 1px solid black;">100%</td> <td></td> </tr> </tbody> </table> <p>* Returns presented as geometric means</p>	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%		<p>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.</p> <p>The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2020 and the long-term expected real rates of return:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Asset Class</th> <th style="text-align: center; border-bottom: 1px solid black;">Target Allocation</th> <th style="text-align: center; border-bottom: 1px solid black;">Long Term Expected Return*</th> </tr> </thead> <tbody> <tr> <td>Fixed Income</td> <td style="text-align: center;">25.0%</td> <td style="text-align: center;">1.32%</td> </tr> <tr> <td>Domestic Equity</td> <td style="text-align: center;">21.0%</td> <td style="text-align: center;">5.64%</td> </tr> <tr> <td>Real Estate</td> <td style="text-align: center;">10.0%</td> <td style="text-align: center;">5.39%</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: center;">12.0%</td> <td style="text-align: center;">10.42%</td> </tr> <tr> <td>International Equity</td> <td style="text-align: center;">23.0%</td> <td style="text-align: center;">7.36%</td> </tr> <tr> <td>Other Investments</td> <td style="text-align: center;">9.0%</td> <td style="text-align: center;">4.75%</td> </tr> <tr> <td>Total</td> <td style="text-align: center; border-top: 1px solid black;">100.0%</td> <td></td> </tr> </tbody> </table> <p>* Returns presented as arithmetic means</p> <p>The following table displays the Board-approved asset allocation policy for health care assets for 2020 and the long-term expected real rates of return:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Asset Class</th> <th style="text-align: center; border-bottom: 1px solid black;">Target Allocation</th> <th style="text-align: center; border-bottom: 1px solid black;">Long Term Expected Return*</th> </tr> </thead> <tbody> <tr> <td>Fixed Income</td> <td style="text-align: center;">34.0%</td> <td style="text-align: center;">1.07%</td> </tr> <tr> <td>Domestic Equities</td> <td style="text-align: center;">25.0%</td> <td style="text-align: center;">5.64%</td> </tr> <tr> <td>REITs</td> <td style="text-align: center;">7.0%</td> <td style="text-align: center;">6.48%</td> </tr> <tr> <td>International Equities</td> <td style="text-align: center;">25.0%</td> <td style="text-align: center;">7.36%</td> </tr> <tr> <td>Other Investments</td> <td style="text-align: center;">9.0%</td> <td style="text-align: center;">4.02%</td> </tr> <tr> <td>Total</td> <td style="text-align: center; border-top: 1px solid black;">100.0%</td> <td></td> </tr> </tbody> </table> <p>* Returns presented as arithmetic means</p>	Asset Class	Target Allocation	Long Term Expected Return*	Fixed Income	25.0%	1.32%	Domestic Equity	21.0%	5.64%	Real Estate	10.0%	5.39%	Private Equity	12.0%	10.42%	International Equity	23.0%	7.36%	Other Investments	9.0%	4.75%	Total	100.0%		Asset Class	Target Allocation	Long Term Expected Return*	Fixed Income	34.0%	1.07%	Domestic Equities	25.0%	5.64%	REITs	7.0%	6.48%	International Equities	25.0%	7.36%	Other Investments	9.0%	4.02%	Total	100.0%	
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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
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(in thousands)

Discount Rate	<p>Pensions -- The discount rate used to measure the total pension liability was 7.45% as of June 30, 2020. 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, 2020. 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, 2020.</p> <p>OPEB -- The discount rate used to measure the total OPEB liability was 7.45% as of June 30, 2020. 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 projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2020.</p>	<p>Pensions -- The discount rate used to measure the total pension liability was 7.2% 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 contractually required rates, as actuarially determined. 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.</p> <p>OPEB -- A single discount rate of 6.00% was used to measure the OPEB liability on the measurement date of December 31, 2020. 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 6.00% and a municipal bond rate of 2.00%. 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 2120. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2120, the duration of the projection period through which projected health care payments are fully funded.</p>
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Changes in Assumptions Since the Prior Measurement Date	<p>Pensions – There were no changes in assumptions since the prior measurement date of June 30, 2019.</p> <p>OPEB -- There were no changes in assumptions since the prior measurement date of June 30, 2019.</p>	<p>Pensions – There were no changes in assumptions since the prior measurement date of December 31, 2019.</p> <p>OPEB -- The discount rate was increased from 3.16% to 6.00% based on the methodology defined under GASB Statement No. 74, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)</i>.</p>												
Benefit Term Changes Since the Prior Measurement Date	<p>Pensions – There were no changes in benefit terms since the prior measurement date of June 30, 2019.</p> <p>OPEB -- The non-Medicare subsidy percentage was increased effective January 1, 2021 from 1.984% to 2.055% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the AMA Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely.</p>	<p>Pensions – There were no changes in benefit terms since the prior measurement date of December 31, 2019.</p> <p>OPEB – On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees.</p>												
Sensitivity of Net Pension Liability to Changes in Discount Rate	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease (6.45%)</th> <th style="text-align: center;">Current Rate (7.45%)</th> <th style="text-align: center;">1% Increase (8.45%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ 5,570</td> <td style="text-align: right;">\$ 3,912</td> <td style="text-align: right;">\$ 2,507</td> </tr> </tbody> </table>	1% Decrease (6.45%)	Current Rate (7.45%)	1% Increase (8.45%)	\$ 5,570	\$ 3,912	\$ 2,507	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease (6.2%)</th> <th style="text-align: center;">Current Rate (7.2%)</th> <th style="text-align: center;">1% Increase (8.2%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ 1,606,399</td> <td style="text-align: right;">\$ 831,082</td> <td style="text-align: right;">\$ 186,837</td> </tr> </tbody> </table>	1% Decrease (6.2%)	Current Rate (7.2%)	1% Increase (8.2%)	\$ 1,606,399	\$ 831,082	\$ 186,837
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Sensitivity of Net OPEB Liability (Asset) to Changes in Medical Trend Rate	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease in Trend Rate</th> <th style="text-align: center;">Current Trend Rate</th> <th style="text-align: center;">1% Increase in Trend Rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ (314)</td> <td style="text-align: right;">\$ (284)</td> <td style="text-align: right;">\$ (248)</td> </tr> </tbody> </table>	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate	\$ (314)	\$ (284)	\$ (248)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">1% Decrease in Trend Rate</th> <th style="text-align: center;">Current Trend Rate</th> <th style="text-align: center;">1% Increase in Trend Rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ (107,493)</td> <td style="text-align: right;">\$ (104,901)</td> <td style="text-align: right;">\$ (102,074)</td> </tr> </tbody> </table>	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate	\$ (107,493)	\$ (104,901)	\$ (102,074)
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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
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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 9.53% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement health care benefits.

Combined Plans

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

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

Summary of Employer Pension and OPEB Expense

Total pension and OPEB expense for the year ended June 30, 2021, including employer contributions and accruals associated with recognition of net pension liabilities, net OPEB assets and liabilities, and related deferrals, is presented below.

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	\$ 342	\$ 134,543	\$ 12,468	\$ 147,353
GASB 68 Pension Accruals	747	(67,105)		(66,358)
GASB 75 OPEB Accruals	(12)	(612,461)		(612,473)
Total Pension and OPEB Expense	\$ 1,077	\$ (545,023)	\$ 12,468	\$ (531,478)

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(in thousands)

Total pension and OPEB expense for the year ended June 30, 2020, including employer contributions and accruals associated with recognition of net pension liabilities, net OPEB liabilities and related deferrals, is presented below.

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	\$ 243	\$ 126,617	\$ 12,125	\$ 138,985
GASB 68 Pension Accruals	411	136,381		136,792
GASB 75 OPEB Accruals	(58)	127,847		127,789
Total Pension and OPEB Expense	\$ 596	\$ 390,845	\$ 12,125	\$ 403,566

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

NOTE 10 – COMPENSATED ABSENCES

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

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

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

Certain employees (primarily classified 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 roll forward of compensated absences activity as included in Note 11.

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

NOTE 11 – OTHER NON-CURRENT LIABILITIES

Other non-current liability activity for the years ending June 30, 2021 and 2020 is summarized as follows:

	2021			
	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$ 74,806	\$ 10,685	\$ 1,753	\$ 83,738
Third party payor settlements	59,516	34,252	3,366	90,402
Unearned revenue	-	29,522	-	29,522
Other non-current liabilities	2,621	-	-	2,621
	136,943	74,459	5,119	206,283

	2020			
	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$ 63,470	\$ 13,683	\$ 2,347	\$ 74,806
Third party payor settlements	49,374	20,189	10,047	59,516
Other non-current liabilities	2,657	191	227	2,621
	115,501	34,063	12,621	136,943

The growth in compensated absences from 2019 to 2021 is attributable to the slowdown of vacation usage by the workforce as a result of the Covid-19 pandemic. The changes in third-party payor settlements from 2019 and 2021 reflects updated calculations for current and prior year Medicare and Medicaid cost reports. Open cost reports as of June 30, 2021 are represented in the following table below.

University Hospital	James Cancer Hospital
2017	2018
2018	2019
2019	2020
2020	

Included in unearned revenue is the recognition of the agreement with the new Community Connect hospital of \$17.8 million. This reflects the agreement with a new hospital client to implement access to the Epic electronic medical record via a hosting relationship to better serve the needs of the client’s community.

In collaboration with Nationwide Children's Hospital, the James is planning to construct a building of which a portion will be dedicated to the provision of proton therapy services primarily for clinical treatment but also for research purposes. Unearned revenue includes \$10.8 million of funding from Nationwide Children's Hospital to ensure their patients have access to the center and receive timely services over the term of their agreement for related proton therapy services from the James.

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NOTE 12 – 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, 2021 and 2020 is summarized as follows:

<u>Payor - Receivables</u>	<u>Fiscal Year June 30,</u>	
	<u>2021</u>	<u>2020</u>
Managed Care	58%	59%
Medicare	23%	22%
Medicaid	14%	14%
Self Pay	5%	5%
Total	100.0%	100.0%

NOTE 13 – 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 \$51,203 and \$61,900 for the years ended June 30, 2021 and 2020, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected \$99,041 for healthcare services in 2021 and \$95,523 in 2020. This is reflected in Net patient service revenue.

In fiscal year 2017, the Health System transferred \$250,000 to the University, for investment in the University’s Long-Term Investment Pool. The Health System records Interest Income related to the Long term receivables and other noncurrent assets on a monthly basis. The Long-term investment pool – Cost Value increased \$10,179 in 2021 as a result of the Health System reinvesting Interest Income earnings back into the pool.

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. Health System amounts due to OSUP totaled \$2,121 for fiscal year 2021 and \$20,181 for fiscal year 2020. Health System amounts due from OSUP totaled \$3,845 for fiscal year 2021 and \$9,790 for fiscal year 2020.

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 \$183,960 for fiscal year 2021 and \$173,749 for fiscal year 2020 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

THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
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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 2021 and 2020. See NOTE 8 - 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 \$11,897 for fiscal year 2021 and \$11,173 for fiscal year 2020.

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 \$8,123 for fiscal year 2021 and \$6,469 for fiscal year 2020.

NOTE 14 – 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 15 - 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, 2021 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 16 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through November 2, 2021, the date the financial statements were issued.

Purchase of Stefanie Spielman Comprehensive Breast Center:

The Health System purchased real property from Gowdy Partners III located at 1145 Olentangy River Road and commonly known as the "Stefanie Spielman Comprehensive Breast Center" for the purchase price of \$42,750. The Health System did not receive anything of value including goods, services, monetary, or otherwise from Gowdy Partners III in consideration for the Property other than the aforementioned purchase price.

Internal Bank Loan for Inpatient Hospital:

The University has issued and allocated \$715,395 of bonds to the Health System for construction of the new Inpatient Hospital tower. The funding was available on October 1, 2021 with a loan period of 30 years. The loan will be paid back in monthly principal and interest payments of \$2,928 with an interest rate of 2.85%.

**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:

Schedule of Proportionate Share of the Net Pension Liability

<i>(dollars in thousands)</i>	2015	2016	2017	2018	2019	2020	2021
STRS-Ohio:							
Health System proportion of the collective net pension liability	0.024%	0.023%	0.016%	0.015%	0.012%	0.013%	0.016%
Health System proportionate share of the net pension liability	\$ 5,783	\$ 6,382	\$ 5,450	\$ 3,453	\$ 2,627	\$ 2,933	\$ 3,912
Health System covered payroll	\$ 2,061	\$ 2,001	\$ 1,417	\$ 1,316	\$ 1,118	\$ 1,275	\$ 1,585
Health System proportionate share of the net pension liability as a percentage of its covered payroll	281%	319%	385%	262%	235%	230%	247%
Plan fiduciary net position as a percentage of the total pension liability	74.7%	72.1%	66.8%	75.3%	77.3%	77.4%	75.5%
OPERS:							
Health System proportion of the collective net pension liability	4.564%	4.765%	4.876%	5.082%	5.252%	5.577%	5.731%
Health System proportionate share of the net pension liability	\$ 548,730	\$ 822,955	\$ 1,104,558	\$ 790,094	\$ 1,432,414	\$ 1,090,407	\$ 831,082
Health System covered payroll	\$ 616,496	\$ 654,922	\$ 694,019	\$ 744,740	\$ 809,493	\$ 853,211	\$ 943,464
Health System proportionate share of the net pension liability as a percentage of its covered payroll	89%	126%	159%	106%	177%	128%	88%
Plan fiduciary net position as a percentage of the total pension liability	86.5%	81.1%	77.4%	84.9%	74.9%	82.4%	87.2%

GASB 75

Required Supplementary Information:

Schedule of Proportionate Share of the Net OPEB Liability

<i>(dollars in thousands)</i>	2018	2019	2020	2021
STRS-Ohio:				
Health System proportion of the collective net OPEB liability	0.015%	0.012%	0.013%	0.016%
Health System proportionate share of the net OPEB liability	\$ 567	\$ (192)	\$ (220)	\$ (284)
Health System covered payroll	\$ 1,316	\$ 1,118	\$ 1,275	\$ 1,275
Health System proportionate share of the net OPEB liability as a percentage of its covered payroll	43%	-17%	-17%	-22%
Plan fiduciary net position as a percentage of the total OPEB liability	47.1%	176.0%	174.7%	182.1%
OPERS:				
Health System proportion of the collective net OPEB liability	5.234%	5.385%	5.715%	5.888%
Health System proportionate share of the net OPEB liability	\$ 568,346	\$ 702,036	\$ 789,364	\$ (104,901)
Health System covered payroll	\$ 744,740	\$ 809,493	\$ 853,211	\$ 853,211
Health System proportionate share of the net OPEB liability as a percentage of its covered payroll	76%	87%	93%	-12%
Plan fiduciary net position as a percentage of the total OPEB liability	54.1%	46.3%	47.8%	115.6%

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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 which comprise the statement of net position as of June 30, 2021, 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 November 2, 2021, 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.

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") as a basis for designing 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 financial statements. 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
November 2, 2021

OHIO AUDITOR OF STATE KEITH FABER



THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/23/2021

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov