# The Ohio State University Health Plan, Inc.

**Financial Statements**
**As of and for the Years Ended**
June 30, 2016 and 2015

# Dave Yost • Auditor of State

Board of Directors
The Ohio State University Health Plan, Inc.
2040 Blankenship Hall
901 Woody Hayes Dr.
Columbus, OH 43210

We have reviewed the Report of *Independent Auditor's* of the Ohio State University Health Plan, Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

December 27, 2016

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## Report of Independent Auditors

To Management of
The Ohio State University Health Plan, Inc.

We have audited the accompanying financial statements of The Ohio State University Health Plan, Inc. (the "Health Plan"), a component unit of The Ohio State University, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of comprehensive income, of equity, and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Health Plan'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 the 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 Plan'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 Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Plan as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of the Health Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Plan's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Columbus, OH
December 15, 2016

# The Ohio State University
# Health Plan, Inc.
## Balance Sheets
## June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 5,993,822 | $ 4,550,518 |
| Investments | 647,801 | 616,503 |
| Accounts receivable | 451,282 | 421,691 |
| Advances - related party | - | 51,813 |
| Prepaid expenses | 143,887 | 155,907 |
| Deferred tax asset | 181,915 | 215,115 |
| Total current assets | 7,418,707 | 6,011,547 |
| Long term advances - related party | - | 66,927 |
| Property and equipment: | | |
| Furniture and equipment | 621,989 | 621,989 |
| Capitalized software | 235,249 | 1,246,385 |
| Less: accumulated depreciation | (618,746) | (1,700,435) |
| Net property and equipment | 238,492 | 167,939 |
| Total Assets | $ 7,657,199 | $ 6,246,413 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Amounts due OSU | $ 2,081,380 | $ 800,787 |
| Accrued salaries, wages, and related liabilities | 532,497 | 648,164 |
| Other accruals | 1,018,626 | 691,539 |
| Total current liabilities | 3,632,503 | 2,140,490 |
| Non-Current Deferred Tax Liability | 12,909 | 48,752 |
| Total Liabilities | 3,645,412 | 2,189,242 |
| Equity: | | |
| Paid-in capital | 3,834,613 | 3,834,613 |
| Accumulated other comprehensive income | 18,864 | 6,762 |
| Accumulated earnings | 158,310 | 215,796 |
| Total Equity | 4,011,787 | 4,057,171 |
| Total Liabilities and Equity | $ 7,657,199 | $ 6,246,413 |

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

# The Ohio State University
# Health Plan, Inc.
## Statements of Comprehensive Income
## For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **REVENUES** | | |
| Health plan revenue | $ 10,171,886 | $ 10,947,957 |
| Pharmacy services revenue | 1,500,901 | 1,614,713 |
| Wellness services revenue | 214,708 | 180,025 |
| Total revenues | 11,887,495 | 12,742,695 |
| **EXPENSES** | | |
| Salaries | 6,123,069 | 6,373,963 |
| Employee benefits | 1,976,840 | 1,957,581 |
| Purchased services | 2,297,150 | 1,933,408 |
| Office rental & maintenance | 554,392 | 559,839 |
| Equipment rental, repair and services | 254,042 | 565,939 |
| Depreciation and amortization | 131,331 | 343,535 |
| Other expenses | 639,342 | 641,382 |
| Total expenses | 11,976,166 | 12,375,647 |
| Operating income | (88,671) | 367,048 |
| Interest and dividend income | 20,959 | 23,921 |
| (Loss) income from operations before taxes | (67,712) | 390,969 |
| Provision (benefit) for income tax expense | (10,226) | (158,614) |
| Net (loss) income | $ (57,486) | $ 549,583 |
| Other Comprehensive Income (Loss): | | |
| Unrealized gain (loss) on investments | 12,102 | (7,951) |
| Total comprehensive (loss) income | $ (45,384) | $ 541,632 |

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

# The Ohio State University
# Health Plan, Inc.
## Statements of Cash Flows
## For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income | $ (57,486) | $ 549,583 |
| Adjustments to reconcile net income to | | |
| cash provided by operating activities: | | |
| Depreciation and amortization | 131,331 | 343,535 |
| Deferred income taxes | (2,643) | (166,363) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (29,591) | (173,016) |
| Advances - related party | 118,740 | 51,813 |
| Prepaid expenses | 12,020 | (66,642) |
| Amounts due OSU | 1,280,593 | 452,981 |
| Accrued salaries, wages, and related liabilities | (115,667) | 18,009 |
| Other accruals | 327,087 | 127,139 |
| Net cash provided by operating activities | 1,664,384 | 1,137,039 |
| **INVESTING ACTIVITIES:** | | |
| Dividend investment | (19,196) | (22,322) |
| Software purchases | (201,884) | (33,365) |
| Net cash used in investing activities | (221,080) | (55,687) |
| **NET CHANGE IN CASH** | 1,443,304 | 1,081,352 |
| **CASH AT BEGINNING OF YEAR** | 4,550,518 | 3,469,166 |
| **CASH AT END OF YEAR** | $ 5,993,822 | $ 4,550,518 |

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

# The Ohio State University
# Health Plan, Inc.
## Statements of Equity
## June 30, 2016 and 2015

| | Paid-in capital | Accumulated other comprehensive income | Accumulated earnings (deficit) | Total |
|---|---|---|---|---|
| **Balance at June 30, 2014** | $ 3,834,613 | $ 14,713 | $ (333,787) | $ 3,515,539 |
| Net income | - | - | 549,583 | 549,583 |
| Unrealized loss on investments | - | (7,951) | - | (7,951) |
| **Balance at June 30, 2015** | $ 3,834,613 | $ 6,762 | $ 215,796 | $ 4,057,171 |
| Net (loss) income | - | - | (57,486) | (57,486) |
| Unrealized gain on investments | - | 12,102 | - | 12,102 |
| **Balance at June 30, 2016** | $ 3,834,613 | $ 18,864 | $ 158,310 | $ 4,011,787 |

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

### 1. Summary of Significant Accounting Policies

The significant accounting policies followed by The Ohio State University Health Plan, Inc. (the "Health Plan" or "Company") are summarized below.

**Organization**
The Health Plan was organized in December 1991 and began full operations on July 1, 1992. On July 27, 2009, the name of the corporation was changed to The Ohio State University Health Plan, Inc. (formerly The Ohio State University Managed Health Care Systems). The Health Plan was organized to promote and carry out educational, charitable, and scientific purposes by conducting and supporting activities that are for the benefit, perform the functions, and carry out the purposes of The Ohio State University (the "University") and supporting the strategic goals of the University's Wexner Medical Center. The Health Plan's primary activities are the performance of managed care, pharmacy services, and wellness services to the University and other employers and groups within Ohio.

Should the Health Plan cease to exist, any net assets remaining after payment of all liabilities would revert to either a selected successor organization established for substantially the same purpose, or absent such a selection, to the University.

**Basis of Presentation**
The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements include the financial position resulting from all health care activities managed by the Health Plan including the Pharmacy Benefits Administration through the Rx Ohio Collaborative (RxOC) for which the Health Plan provides oversight.

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Cash**
The Health Plan maintains cash accounts with a local financial institution. As of June 30, 2016 and 2015, $5,993,822 and $4,550,518, respectively, of the cash holdings of the Health Plan were cash holdings held in bank accounts. Of these cash balances, $250,000 was subject to federal deposit insurance ("FDIC"). The uninsured balance is collateralized by pools of securities pledged by the depository bank and is held in the name of the respective bank.

**Fair Value of Financial Instruments**
The Health Plan estimates fair values of its financial instruments using available quoted market information in accordance with FASB ASC 820 *Fair Value Measurements* ("ASC 820"). Accordingly, the estimates presented are not necessarily indicative of the amounts that the Health Plan could realize in a current market exchange. Different market assumptions might have a material effect on the estimated fair value amounts. The carrying amounts of accounts receivable, accounts payable, and other current liabilities approximate fair value because of the relatively short maturities of these financial instruments. Investments are comprised of publicly-traded mutual funds and are carried at fair value at June 30, 2016 and 2015. See Note 3, *Investments*, for further detail.

**Net Property and Equipment**
Net Property and equipment is stated on the basis of cost less accumulated depreciation. Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives ranging from 5 to 7 years. Depreciation expense recorded was $23,017 and $40,280 for the years ended June 30, 2016 and 2015 respectively. Capitalized software at June 30, 2015 relates to the implementation of the Health Plan's case management software, which was put into service in October 2011 and was amortized over a four year period. This software was retired in March 2016 after being fully amortized. Capitalized software at June 30, 2016 related to new utilization management software capitalized and put in service December 2015. Amortization expense recorded was $108,314 and $303,255 for the years ended June 30, 2016 and 2015, respectively. Following University policy, equipment costing less than $5,000 in the aggregate is not capitalized but expensed directly.

**Income Taxes**
The Health Plan is a taxable entity for federal tax purposes. The Health Plan provides deferred federal income taxes for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes.

The Health Plan recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of the assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Health Plan is a non-charitable, non-profit organization for state tax purposes.

**Revenue Recognition**
The Health Plan earns revenue for services on a predetermined contractual basis, on a fixed fee per covered participant basis, or on a fixed fee per claim basis as specified in the participant contracts.

**Accounting Pronouncements (FASB) Policy**
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single comprehensive framework for entities to use in accounting for revenue from transactions involving contracts with customers across all industries. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendment in this ASU defers the effective date of ASU 2014-09. The guidance is effective for the Company for the year ending June 30, 2020. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is currently evaluating the effect of the adoption of the new standard, including possible transition alternatives, on our financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This standard requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. The guidance is effective for the Company for the year ending June 30, 2019, and early adoption is permitted. The guidance may be applied either prospectively or retrospectively. The Company does not expect to early adopt and is currently evaluating the effect of the adoption of the new standard on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires that lessees recognize all leases, other than leases with a term of twelve months or less, on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. The standard is effective for the Company for the year ending June 30, 2021 and early adoption is permitted. The Company is currently evaluating the effect of the adoption of the new standard on our financial statements.

**Reclassification**

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

**Revision**

The financial statements as of and for the year ended June 30, 2015 have been revised to correct for errors relating to the capitalization of internal-use software and prepaid licensing fees as presented in the balance sheet, the statement of comprehensive income, and the statement of equity. Previously reported assets, liabilities, and equity as of June 30, 2015 were impacted by $59,247, $(239,685), $242,249, respectively, and expenses and net income for the fiscal year ended June 30, 2015 were impacted by $(365,034), and $242,249, respectively. Additionally, previously reported equity as of June 30, 2014 was increased by $56,683. These errors were not material to prior periods' financial statements.

## 2. Transactions with the University

The Health Plan is associated with the University through both a participant contract for services and an administrative service agreement. Under the terms of the participant contract, the Health Plan receives fees for services provided to the University faculty and staff which are recorded in health plan revenue in the statements of comprehensive income.

Under the terms of the administrative agreement, the Health Plan receives administrative services from the University, principally the University processes salaries, fringe benefits (including employee participation in the University pension plan) and other operating items, and the Health Plan reimburses the University for these expenses. The amounts due to the University of $2,081,380 and $800,787 as of June 30, 2016 and 2015, respectively, was primarily due for reimbursement of these expenses processed and paid by the University.

## 3. Investments

The fair value of investments, which includes publicly-traded bond mutual funds, is $647,801 and $616,503 as of June 30, 2016 and 2015, respectively.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the Health Plan's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable and unobservable inputs when measuring the fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would rise in pricing an asset or liability.

As of June 30, 2016 and 2015, the Health Plan's bond mutual funds are measured at fair value, which approximates amortized cost, based on level 1 inputs. There were no transfers between levels of the fair value hierarchy. The Company's policy is to recognize transfers between levels at amortized cost as of the date of the transfer.

## 4. Accounts Receivable

As of June 30, 2016 and 2015, accounts receivable primarily represents amounts due from external Health Plan customers and groups. All amounts were deemed fully collectible.

## 5. Income Taxes

The Health Plan has net deferred tax assets as of June 30, 2016 and 2015 as follows:

| | 2016 | 2015 |
|---|---|---|
| Gross Deferred Tax Assets: | | |
| Current | 181,915 | 234,027 |
| Non-Current | 23,536 | - |
| Total | 205,451 | 234,027 |
| Gross Deferred Tax Liabilities: | | |
| Current | - | (18,912) |
| Non-Current | (36,445) | (48,752) |
| Total | (36,445) | (67,664) |
| Net Deferred Tax Asset (Liability) before Allowance | | |
| Current | 181,915 | 215,115 |
| Non-Current | (12,909) | (48,752) |
| Total | 169,006 | 166,363 |
| Valuation Allowance | - | - |
| Net Deferred Tax Asset | 169,006 | 166,363 |

The deferred tax assets reflect timing differences between book and tax reporting. As of June 30, 2016 and 2015 deferred tax assets included $14,926 related to net operating loss carryforwards generated in 2016, which have 20 year carryforward periods. The remaining portion of the deferred tax assets as of June 30, 2016 and the deferred tax assets as of June 30, 2015 are attributable to timing differences for tax deductions, primarily related to vacation, sick leave and incentive pay. A valuation allowance was placed on the deferred tax assets at June 30, 2014 due to the Health Plan's historical cumulative loss experience for tax purposes, resulting in management's assessment that its deferred tax assets were not "more likely than not" realizable. However, for fiscal year 2015, valuation allowances on deferred tax assets were reversed given recent years' earnings for tax purposes and the utilization of a majority of existing net operating losses, resulting in the determination that its "more likely than not" that the Health Plan's deferred tax assets are realizable at June 30, 2015.

The provision for income taxes was different from the amount computed using the federal statutory rate for the year ended June 30, 2016 due primarily to local tax and the dividends received deduction. The provision for income taxes was different from the amount computed using the federal statutory rate for the year ended June 30, 2015 due primarily to release of valuation allowance on deferred tax assets, local tax, and the dividends received deduction.

## 6. Pharmacy Ohio Collaborative Program

The Health Plan joined the Pharmacy Ohio Collaborative ("RxOC") in coordination with four State of Ohio Retirement programs in January 2009. Initially this program provided group purchasing of pharmaceuticals for the beneficiaries of the health plan for these partners. The Health Plan assumed management responsibility for the RxOC and leads the marketing efforts of the RxOC program in conjunction with Express Scripts Inc. ("ESI"), the current pharmacy benefits provider. The Health Plan provides leadership and management of the RxOC program throughout the State of Ohio. ESI provides funding to support the RxOC program. This program is also marketed to other universities, school systems, governmental entities, and employers. A management fee is paid to the RxOC program by these entities for access and the services being provided. The Health Plan has copyrighted the RxOC name.

## 7. Leases

The Health Plan leases its corporate facilities under certain operating leases expiring in December 2016. Total operating lease expense for fiscal year 2016 and 2015 was $571,622 and $578,312, respectively. The future minimum lease payments remaining under the operating lease as of June 30, 2016 are $222,207 due in fiscal year 2017. Effective June 24, 2016 the building was purchased by Medstone Realty Company, LLC, a related party. The Health Plan intends to enter into a month to month lease arrangement with Medstone Realty.

## 8. Retirement Plans

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

The Health Plan has no assets or liabilities of STRS Ohio, OPERS, or ARP included in its financial statements. Employer contributions to the plans by the Health Plan for its employees are included as employee benefits expense in the statements of comprehensive income. STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

**Defined Benefit Plans**

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

| | |
|---|---|
| STRS Ohio | OPERS, Attn: Finance Director |
| 275 East Broad Street | 277 East Town Street |
| Columbus, OH 43215-3371 | Columbus, OH 43215-4642 |
| (614) 227-4090 | (614) 222-5601 |
| (888) 227-7877 | (800) 222-7377 |
| www.strsoh.org | www.opers.org |

In addition to the retirement benefits described above, STRS Ohio and OPERS provide post-employment health care benefits.

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (“ORC”), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar years 2015 and 2016, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for retirees.

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

Post-employment health care benefits are not guaranteed by ORC to be covered under either OPERS or STRS Ohio defined benefit plans.

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

**Combined Plans**

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

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

**Funding Policy**

ORC provides STRS Ohio and OPERS statutory authority to set employee and employer contributions. Contributions equal to those required by STRS Ohio and OPERS are required for ARP. For employees enrolling in ARP, ORC requires a portion (which may be revised pursuant to periodic actuarial studies) of the employer contribution be contributed to STRS Ohio and OPERS to enhance the stability of these plans. The required contribution rates (as a percentage of covered payroll) for plan members and the University are as follows:

| | STRS Ohio | OPERS | ARP |
|---|---|---|---|
| Faculty: | | | |
| Plan member (entire year) | 13.00% | | 13.00% |
| University (entire year) | 14.00% | | 14.00%* |
| Staff: | | | |
| Plan member (entire year) | | 10.00% | 10.00% |
| University (entire year) | | 14.00% | 14.00%** |
| Law Enforcement: | | | |
| Plan member | | 13.00% | 13.00% |
| University (entire year) | | 18.10% | 18.10%** |

* Employer contributions include 4.5% paid to STRS Ohio.
** Employer contributions include 0.77% paid to OPERS.
The remaining amount is credited to employee's ARP account.

The University's contributions, including the Health Plan, which represent 100% of required employer contributions, for the years ending June 30, 2015 and June 30, 2016 are as follows (in thousands):

| Year Ended June 30, | STRS Ohio Annual Required Contribution | OPERS Annual Required Contribution | ARP Annual Required Contribution |
|---|---|---|---|
| 2015 | $ 65,738 | $ 170,979 | $ 50,598 |
| 2016 | $ 66,975 | $ 178,293 | $ 53,423 |

## 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed this analysis through the date of the report, December 15, 2016, noting no activities or transactions requiring adjustments or disclosure.

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

To Management of
The Ohio State University Health Plan, Inc.

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 Health Plan, Inc. (the "Health Plan"), a component unit of The Ohio State University, which comprise the balance sheet as of June 30, 2016, and the related statement of comprehensive income, of equity, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Plan'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

<u>2016-001</u> - Capitalization of internal-use software

*<u>Observation:</u>* Based on audit procedures performed, a misstatement was identified whereby the purchase of internal-use software was expensed in full and not appropriately capitalized under the guidance in ASC

350-40, *Intangibles – goodwill and other – Internal-use software*. Both the nature and size of this purchase was significant and unusual in relation to the Health Plan's recurring business activities.

*Recommendation:* We recommend more robust documentation and review of the guidance evaluated and conclusions made when accounting for significant, non-recurring transactions. This memorandum of accounting conclusions should be shared with and agreed to by management.

*Management Response:* We agree with the recommendation. While we obtained the necessary approval for the new software platform expenditure, a formal document was not prepared for the accounting treatment. A new reporting structure for the Health Plan was implemented during 2016, with the Health Plan reporting to the CFO of the University Medical Center. This new reporting structure facilitates the formal documentation and discussion of accounting for significant and unusual transactions.

**Compliance and Other Matters**

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

**The Health Plan's Response to Findings**

The Health Plan's response to the findings identified in our audit is described previously. The Health Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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, OH
December 15, 2016

Dave Yost • Auditor of State

**THE OHIO STATE UNIVERSITY HEALTH PLAN**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**JANUARY 10, 2017**