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

Basic Financial Statements as of and for the Years Ended June 30, 2023 and 2022, Independent Auditors' Report, and Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Trustees
The Ohio State University Wexner Medical Center Health System
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We have reviewed the *Independent Auditors' Report* of The Ohio State University Wexner Medical Center Health System, Franklin County, prepared by KPMG LLP, for the audit period July 1, 2022 through June 30, 2023. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

December 06, 2023

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THE OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HEALTH SYSTEM

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Independent Auditors' Report

The Board of Trustees of The Ohio State University:

Report on the Audit of the Financial Statements

Opinion

We have audited 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, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 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, 2023 and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, and the schedule of proportionate share of the net OPEB liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 14, 2023 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
November 14, 2023

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, 2023, 2022, and 2021. 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 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.

Mission: As one of America's top-ranked academic health centers, our mission is to improve people's lives in Ohio and across the world through innovation in research, education and patient care.

Key clinical care locations and facilities of the Health System include:

- ***University Hospital*****:** the Health System'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 53 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.
- ***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. Harding Hospital's team includes psychiatrists, psychologists, social workers, registered nurses, occupational therapists, recreational therapists, chaplains and licensed counselors.
- ***East Hospital:*** blends academic medicine with a community-based setting. 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, a comprehensive wound-healing center with limb preservation program, 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 amputee, cancer, 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.

In an effort to unify all faculty practices to create a fully integrated, high-performing practice plan (HP3), the faculty practices operated by the Health System moved to OSU Physicians, Inc. (OSUP) in July 2022. The Health System practices included Anesthesiology, Maternal Fetal Medicine, Neurosurgery, Orthopedics, Sports Medicine, and Family and Community Medicine. The impact of the physician integration was a reduction to the Health System Operating Revenues of $224.5 million and Operating Expenses of $254.0 million. While physician practice operations moved to OSUP, employees supporting these practices remained as employees of the Health System and are leased to OSUP. See NOTE 13 – RELATED PARTY TRANSACTIONS.

The Health System provided services to approximately 60,700 inpatients and 1,773,000 outpatients during fiscal year 2023, 58,300 inpatients and 2,255,000 outpatients during fiscal year 2022, and 62,900 inpatients and 2,116,000 outpatients during fiscal year 2021. The reduction to outpatients in 2023 is a result of the Health System physician practices moving to OSUP as a part of HP3.

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 Medical Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 31 consecutive years as one of “America’s Best Hospitals” and has been consistently ranked first in Central Ohio. US News and World Report further recognized the Health System as a national leader in ten specialties including: Cancer, Cardiology & Heart Surgery, Diabetes & Endocrinology, Ear, Nose & Throat, Gastroenterology and GI Surgery, Gynecology, Neurology and Neurosurgery, Pulmonary and Lung Surgery, Rehabilitation, and Urology. The Medical Center is rated as high performing in 15 out of 21 common procedures and conditions. The 15 common 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 failure, kidney failure, knee replacement, leukemia, lymphoma & myeloma, lung cancer surgery, ovarian cancer surgery, pneumonia, prostate cancer surgery, and stroke. These high rankings demonstrate how the Medical Center is leading the way in life-changing medical research and compassionate, effective patient care.

In 2023, Forbes ranked The Ohio State University Wexner Medical Center as one of America’s Best Employers for Diversity. This recognition means Americans who were surveyed see the Medical Center as a top employer for diversity, equity, and inclusion. The Medical Center has been recognized by Forbes list of America’s Best Large Employers as one of the nation's Top 100 Great Hospitals for its history of innovation and high quality 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, Dodd Hall, the Brain and Spine Hospital, and The James are all designated Magnet hospitals.

The Medical Center has more “Top Doctors” than any other central Ohio hospital according to the August 2023 Columbus Monthly Health magazine in conjunction with Castle Connolly. 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,		
	2023	2022	2021
Selected Statistics			
Admissions	60,713	58,320	62,921
Avg. Daily Census	1,251	1,220	1,234
Outpatient Visits	1,773,306	2,255,167	2,116,454
Emergency Visits	120,486	112,995	112,035
Transplants	567	572	574
Surgeries	56,040	51,388	50,740

The healthcare industry continued to face challenges and while the Health System was not immune to these headwinds, the organization worked hard to overcome them. In 2023, Health System inpatient volumes ended the year higher than prior year by 4.1% in terms of patient admissions and by 3.1% for inpatient surgeries and length of stay improved by 4.5%. Outpatient surgeries were 12.3% ahead of prior year and imaging services increased 14.5% as the organization added capacity with the Health System's two newest ambulatory facilities in New Albany and Dublin. Oncology and non-oncology infusions experienced a 10.8% increase in outpatient volume in 2023 contributing to the positive results from operations for the system.

In September 2022, the Health System opened Outpatient Care Dublin, a 272,000 square foot facility that includes primary care, advanced imaging and lab work, specialized treatments like infusion and physical therapy; cancer diagnosis and screening; outpatient surgery and procedures; an on-site retail pharmacy; and Advanced Immediate Care, which provides the expertise of an emergency department with shorter wait times and lower costs for patients. At Outpatient Care Dublin, the Health System performed 145 surgical cases, over 2,200 endoscopies, and saw over 83,300 outpatient visits in its first year of operations. Approximately 10,200 of the 83,300 outpatient visits were new patients for the Health System.

The Health System has major construction projects currently underway including:

- New Inpatient Hospital – Construction continues on the 1.9 million square foot, 24-story Inpatient Hospital east of Cannon Drive. The $1.79 billion hospital is the largest single facilities project ever undertaken at The Ohio State University (the "University"). In 2022, the University issued general receipts bonds and the Health System borrowed $715.4 million from the University to fund the construction of the new Inpatient Hospital. As of June 30, 2023, construction on the Inpatient Hospital Tower was 55% complete. The building is on track for an early 2026 opening as crews work to finish the lantern glasswork along the top of the structure as well as the installation of the curtain wall and roofing.
- Health System Outpatient Care West Campus – Construction continues on the $350 million West Campus outpatient facility. This 385,000 square foot cancer focused facility opened in July 2023 and includes outpatient operating rooms, interventional radiology rooms, an extended recovery unit, a pre-anesthesia center, a diagnostic imaging center, pharmacy, hematology clinic, genitourinary (GU) clinic, infusion and medical office and support spaces. The outpatient facility will also include the region's first proton therapy facility, which is slated to open in December 2023.

The Health System's estimated future capital commitments, based on contracts and purchase orders, total approximately $855.5 million at June 30, 2023.

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 in March of 2020. After three unprecedented years of managing Covid-19, the Department of Health and Human Services (HHS) declared an end to the public emergency on May 11, 2023, thus ending the pandemic. With a lot of time, energy, and unyielding teamwork during the pandemic, the Health System's financial position remained strong. Health System management took on all additional measures during the pandemic to protect the health of the community and promote the continuity of its mission and will continue to monitor the course of Covid-19 beyond the pandemic.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act – which was enacted March 27, 2020 in response to the Covid-19 outbreak – included provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. 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. The Health System recognized $143.3 million of Provider Relief Funds (PRF) in 2020. In 2021, the Health System received an additional $22.6 million in Provider Relief Funds and recorded an allowance in the amount of $16.8 million due to uncertainties related to multiple revisions of Provider Relief Fund eligibility and reporting requirements. In 2023, the Health System received and recognized an additional $20.5 million of Provider Relief Funds as a grant subaward from OSUP.

The U.S. Department of Health and Human Services provided accelerated advance payments of Medicare reimbursements to health systems that, in effect, provided an interest free loan for one year, with repayments accomplished by netting the advanced amount against future Medicare claim amounts. The Health System received $274.9 million under the Medicare Accelerated and Advance Payment Program. These amounts were considered short-term loans and were reported as current liabilities in the Statement of Net Position. As of 2023, the entire $274.9 million was recouped.

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. As of 2023, the Health System has received and recorded $36.4 million related to Covid-19 cost recovery.

In 2023 and 2022, Medical Center Investments were recorded in the Non-Operating (Expenses) Revenues section in the Statement of Revenues, Expenses, and Changes in Net Position. Medical Center Investment transactions represent external transactions in the Health System's stand-alone financial statements. Medical Center Investments were recorded as Other Changes in Net Position in the Statement of Revenues, Expenses, and Changes in Net Position for 2021.

In 2023, the Health System implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. Under GASB 96, governments are required to identify arrangements that qualify as SBITAs and recognize 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 accompanying financial statements and Management Discussion and Analysis information for the year ended June 30, 2022 have been restated to reflect the new accounting standard. Management Discussion and Analysis information for the year ended June 30, 2021 has not been restated.

The Ohio State University reports in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 requires governmental employers participating in defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. The University also implements a related accounting standard, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 requires employers participating in other post-employment benefit (OPEB) plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. OPEB benefits consist primarily of post-retirement healthcare. The Health System participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio, and is required to record a liability for its proportionate share of the net pension and OPEB liabilities of the retirement systems.

In 2023, the Health System's share of OPERS and STRS-Ohio net pension liabilities increased $1.259 billion to $1.744 billion at June 30, 2023. OPERS and STRS-Ohio net pension liabilities increased $1.255 billion and $3.5 million, respectively, predominantly reflecting negative investment returns for both retirement systems. OPERS realized a (12.03)% return on defined benefit plan investments for calendar year 2022. STRS-Ohio realized a (3.73)% return for the fiscal year ended June 30, 2022. Deferred outflows related to pensions increased $504.0 million, to $670.6 million at June 30, 2023 while deferred inflows related to pensions decreased $631.7 million to $3.9 million at June 30, 2023. The changes in pension deferrals relate primarily to OPERS and STRS-Ohio projected vs actual investment returns. These deferrals will be recognized as pension expense in future periods.

In 2023, the Health System's proportionate share of OPERS net OPEB liabilities swung from a net OPEB asset of $188.7 million to a net OPEB liability of $38.1 million at June 30, 2023, reflecting a combination of negative investment returns and a reduction in the discount rate used to calculate the total OPEB liability. OPERS realized a (15.51)% return on its health care investments for calendar year 2022. Deferred outflows related to OPEB increased $113.5 million, to $114.1 million at June 30, 2023, and deferred inflows related to OPEB decreased $181.4 million, to $13.2 million at June 30, 2023. The changes in OPEB deferrals relate primarily to OPERS projected vs. actual investment returns. These deferrals will be recognized as OPEB expense in future periods.

In 2022, the Health System's share of OPERS and STRS-Ohio net pension liabilities decreased $349.4 million to $485.6 million at June 30, 2022. OPERS and STRS-Ohio net pension liabilities decreased $348.3 million and $1.1 million, respectively, reflecting strong investment returns for both retirement systems. OPERS realized a 15.34% return on defined benefit plan investments for calendar year 2021. STRS-Ohio realized a 29.16% return for the fiscal year ended June 30, 2021. Deferred outflows related to pensions increased $95.3 million, to $166.6 million at June 30, 2022 while deferred inflows related to pensions increased $262.5 million to $635.7 million at June 30, 2022. The changes in pension deferrals relate primarily to OPERS and STRS-Ohio projected vs actual investment returns. These deferrals will be recognized as pension expense in future periods.

In 2022, the Health System's share of OPERS and STRS-Ohio net OPEB assets increased $84.0 million, to $189.1 million at June 30, reflecting strong investment returns. OPERS realized a 14.34% return on its health care investments for calendar year 2021. STRS-Ohio realized a 29.16% return for the fiscal year ended June 30, 2021. Deferred outflows related to OPEB decreased $51.5 million, to $0.6 million at June 30, 2022, and deferred inflows related to OPEB decreased $125.0 million, to $194.6 million at June 30, 2022. The changes in pension deferrals relate primarily to amortization of prior-year OPERS deferrals for changes in assumptions and expected vs actual experience. These deferrals will be recognized as OPEB expense in future periods.

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.

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.

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 $250.1 million in 2023 compared to $670.3 million in 2022. The Health System recognized pension expense of $123.1 million in 2023 compared to a pension benefit of $182.2 million in 2022 reflecting annual accounting under GASB 68. In comparison, the Health System recognized an OPEB benefit of $68.4 million in 2023 compared to an OPEB benefit of $157.4 million in 2022 reflecting annual accounting under GASB 75. Income Before Other Changes in Net Position for clinical activities was $301.8 million in 2023, $326.9 million in 2022, and $672.7 million in 2021. Income Before Other Changes in Net Position for clinical activities in 2023 includes Medical Center Investments of $229.5 million reinvested to support clinical research and education, as well as various patient programs at the Medical Center.

	Fiscal Year June 30,		
	2023	2022 (in thousands)	2021
Clinical Activities	$ 301,796	$ 326,912	$ 672,690
Development pledges and gifts	2	452	120
GASB 68 pension	(123,103)	182,154	66,358
GASB 75 OPEB	68,422	157,421	612,473
GASB 87 Leases	2,614	3,044	-
GASB 96 Subscription-Based IT Arrangements	408	280	-
Income Before Other Changes in Net Position	**$ 250,139**	**$ 670,263**	**$ 1,351,641**

Other Changes in Net Position includes $31.4 million of capital contributions for construction of the new Inpatient Hospital as well as other capital acquisitions. This compares to $30.7 million in 2022 and $19.8 million in 2021. After these changes and including the impact of GASB 68 and GASB 75, the Health System's Net Position increased $281.9 million and totaled $2,877.1 million in 2023 compared to $2,595.3 million in 2022 and $1,894.2 million 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, GASB 75, and GASB 87.

The Statements of Net Position on June 30, 2023, 2022, and 2021 are summarized as follows:

	2023	2022 (in thousands)	2021
Current assets	$ 1,663,816	$ 1,828,757	$ 2,104,022
Noncurrent assets			
Unexpended bond proceeds	46,323	460,868	-
Long-term investment pool	560,234	430,631	371,134
Other long-term investments	139,956	139,956	139,956
Capital assets, net	3,227,596	2,671,133	2,066,142
Net OPEB Asset	739	189,150	105,185
Other	212,014	130,153	106,635
Deferred outflows	785,039	167,597	123,831
Total assets and deferred outflows	6,635,717	6,018,245	5,016,905
Current liabilities			
Accounts payable and accrued expenses	278,854	351,778	330,544
Medicare Advance Payment Program	-	79,601	254,854
Current portion of long-term debt	71,763	71,287	54,144
Other current liabilities	96,032	109,839	108,031
Total current liabilities	446,649	612,505	747,573
Non-current liabilities			
Long-term debt	1,104,764	1,176,527	539,935
Net pension liability	1,744,389	485,582	834,994
Net OPEB liability	38,085	-	-
Other non-current liabilities	244,860	232,677	248,056
Deferred inflows	179,864	915,699	752,121
Total liabilities and deferred inflows	3,758,611	3,422,990	3,122,679
Net position	2,877,106	2,595,255	1,894,226
Total liabilities, deferred inflows, and net position	$ 6,635,717	$ 6,018,245	$ 5,016,905

Current Assets and Current Liabilities

	2023	2022 (in thousands)	2021
Current Assets			
Cash and cash equivalents	$ 958,811	$ 1,179,443	$ 1,434,313
Patient accounts receivable, net	464,038	457,684	421,944
Inventory	75,551	69,671	66,044
Prepaid expenses and other current assets	30,921	23,964	22,672
Other Receivables	134,495	97,995	159,049
Total Current Assets	**$ 1,663,816**	**$ 1,828,757**	**$ 2,104,022**

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 $220.6 million from 2022 to 2023. The decrease in cash for 2023 includes $750.1 million in capital purchases related to various hospital projects including the construction of the new Inpatient Hospital Tower. In addition, the remaining $79.6 million was recouped under the Medicare Advance Payment Program. To offset the increase in capital spend and recoupment of Medicare Advance, the Health System generated $465.2 million in cash from operations in 2023 and received $50.3 million for federal and state stimulus funding for Covid-19 recovery.

Cash decreased $254.9 million from 2021 to 2022. The decrease in cash for 2022 includes $777.2 million in capital purchases related to various hospital projects. The Health System also paid $175.3 million for recoupments related to the Medicare Advance Payment Program. In addition, the Health System generated

$557.6 million in cash from operations in 2022 and received $25.3 million for federal and state stimulus funding for Covid-19 recovery.

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 2023 fiscal year, patient accounts receivable net increased $6.4 million compared to 2022, reflecting the overall increase in inpatient and outpatient volume as well as higher oncology and non-oncology infusions. As of the end of the 2022 fiscal year, patient accounts receivable net increased $35.7 million compared to 2021, reflecting the overall increase in outpatient activity.

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 2023 fiscal year, inventory, prepaids, and other receivables totaled $241.0 million. This compares to $191.6 million in 2022 and $247.8 million in 2021. The growth in inventory for 2023 is a result of increases in operating room supplies and pharmaceuticals. Other receivables totaled $134.5 million in 2023 and increased $36.5 million compared to 2022. The increase in other receivables is related to amounts due to the Health System from affiliate organizations. In accordance with GASB 87, other receivables also include the current portion of lease receivable in the amount of $10.0 million in 2023 and $6.3 million in 2022. The current portion of lease receivable represents what will be recorded as lease revenue in the next fiscal year.

	2023	2022 (in thousands)	2021
Current Liabilities			
Accounts payable and accrued expenses	$ 278,854	$ 351,778	$ 330,544
Medicare Advance Payment Program	-	79,601	254,854
Accrued salaries & benefits	73,197	71,400	68,747
Current portion of long-term debt	71,763	71,287	54,144
Third-party payor settlements	3,344	21,952	29,387
Other current liabilities	19,491	16,487	9,897
Total Current Liabilities	**$ 446,649**	**$ 612,505**	**$ 747,573**

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 decreased $72.9 million or 20.7% from 2022 to 2023. The decrease includes the recognition of the $16.8 million allowance for 2021 Provider Relief Funds as well as $15.0 million reduction of accrued expenses related to HP3. Additionally, accounts payable and accrued expenses include a reduction of $39.7 million related to the timing of payment for capital projects.

Accounts payable and accrued expenses increased $21.2 million or 6.4% from 2021 to 2022. The increase includes $31.1 million related to the timing of payment for medical supplies, pharmaceuticals, services as well as $36.5 million for capital projects. Payments due to the University and OSUP for Supplies and Services decreased $44.1 million in 2022.

The remaining $79.6 million related to the Medicare Accelerated and Advanced Payment Program was recouped as of June 30, 2023. 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 increased $1.8 million or 2.5% from 2022 to 2023.

Unexpended bond proceeds and other long-term investments

Unexpended bond proceeds include the remaining of the $46.3 million of general receipt bonds issued by the University and allocated to the Health System for construction of the new inpatient hospital. The Health System has used $669.1 million of the $715.4 million general receipt bonds for tower construction costs.

Other long-term investments is comprised of funds set aside for future capital expansion projects and research initiatives to support clinical care and the academic mission of the Medical Center.

	2023	2022 (in thousands)	2021
Unexpended bond proceeds	**$ 46,323**	**$ 460,868**	**$ -**
Other long-term investments			
Construction funds held for MCE	$ 91,925	$ 91,925	$ 91,925
Funds held for capital replacement	28,031	28,031	28,031
Funds held for research initiatives	20,000	20,000	20,000
Total other long-term investments	**$ 139,956**	**$ 139,956**	**$ 139,956**

Long-Term Investment Pool

	2023	2022 (in thousands)	2021
Long-Term Investment Pool			
Long-term investment pool - Cost Value	$ 489,382	$ 372,389	$ 286,568
Unrealized Gain	70,852	58,242	84,566
Long-Term Investment Pool	**$ 560,234**	**$ 430,631**	**$ 371,134**

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 $117.0 million in 2023 and $85.8 million in 2022 as a result of the Health System transferring additional operating cash and reinvesting Interest Income earnings back into the pool. The Health System recorded a net increase or unrealized gain of $12.6 million in the market value of investments in 2023. The Health System recorded a $26.3 million unrealized loss in the market value of investments during fiscal year 2022 and an unrealized gain of $78.6 million in 2021.

Capital Assets

	2023	2022 (in thousands)	2021
Capital Assets - Net			
Property, Plant, and Equipment	$ 3,710,424	$ 3,402,504	$ 3,145,060
Construction In Progress	1,402,536	1,010,380	529,522
Accumulated Depreciation	(1,977,909)	(1,820,404)	(1,673,049)
Lease Assets	92,545	78,653	64,609
Capital Assets - Net	**$ 3,227,596**	**$ 2,671,133**	**$ 2,066,142**

Property, plant, and equipment increased in 2023 primarily due to the completion of the new outpatient care ambulatory facility in Dublin, the opening of the Pelotonia Research Center, the purchase of land for a future ambulatory site in Powell, updates to existing ambulatory locations, and other strategic Information Technology initiatives. Construction in progress growth continues as a result of the costs associated with the new inpatient hospital, regional ambulatory sites, and other facility improvements including equipment expenses. GASB 87 establishes the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. The Health System recorded a lease asset in the amount of $59.1 million in 2023, $60.0 million in 2022 and $64.6 million in 2021. GASB 96 extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. The Health System recorded a SBITA asset in the amount of $33.4 million in 2023 and $18.7 million in 2022.

The growth in property, plant, and equipment in 2022 is primarily due to the completion of the new outpatient care ambulatory facility in New Albany, building purchases of the Eye and Ear Institute (EEI) as well as the Stefanie Spielman Comprehensive Breast Center (SSCBC), renovation of a faculty office building, and the relocation of Cannon Drive for future expansion. Construction in progress growth continues because of the costs associated with the new inpatient hospital, regional ambulatory sites, and other facility improvements including equipment expenses.

Other Non-current Assets and Non-current Liabilities

	2023	2022 (in thousands)	2021
Other Non-Current Assets			
Equity method investments	$ 20,191	$ 18,439	$ 20,101
Net OPEB Asset	739	189,150	105,185
Long-term lease receivable	160,098	84,274	56,413
Long term pledges receivable, net	5,699	5,035	5,133
Long term receivables and other non-current assets	26,026	22,405	24,988
Total Other Non-Current Assets	**$ 212,753**	**$ 319,303**	**$ 211,820**

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. The change in investment balance reflects the Health System's total equity interest in these investments. Long-term receivables and other non-current assets totaled $26.0 million in 2023. The Health System operates a program to assist community-based hospital systems gain 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 include a $9.4 million receivable which represents payments due to the Health System for implementation and maintenance for the Epic hosting agreement with multiple community hospitals. Long term receivables and other non-current assets also include endowment assets of $8.1 million in 2023, $7.7 million in 2022, and $7.7 million in 2021. The Health System is a lessor for various noncancellable leases of real estate. In accordance with GASB 87, long-term lease receivable recorded by the Health System was $160.1 million in 2023, $84.3 million in 2022, and $56.4 million in 2021. The increase in long-term lease receivable in FY23 is primarily due to the opening of Outpatient Care Dublin.

	2023	2022 (in thousands)	2021
Other Non-Current Liabilities			
Third-party payor settlements	$ 74,697	$ 87,306	$ 90,402
Compensated absences	74,369	77,417	83,738
Long-term lease liability	51,930	46,769	41,773
Net pension liability	1,744,389	485,582	834,994
Net OPEB liability	38,085	-	-
Unearned Revenue	37,441	18,564	29,522
Other noncurrent liabilities	6,423	2,621	2,621
Total Other Non-Current Liabilities	**$ 2,027,334**	**$ 718,259**	**$ 1,083,050**

Third-party payor settlements consist of future settlements of current and previous years Medicare and Medicaid cost reports, OIG audits, Managed Care payor audits of charges and payments and prior years charging and billing issues. The change in third-party payor settlements from 2022 to 2023 reflects management's estimate for previous years Medicare and Medicaid cost report settlements and Medicare Cost Report final settlements. Compensated absences reflect the liability for earned but unused vacation and the potential payment of ill time upon an employee's termination or retirement. The change in compensated absences from 2021 to 2023 is a result of the utilization of vacation and ill time by the workforce. In accordance with GASB 87, the Health System has recorded a long-term lease liability of $36.1 million in 2023, $39.2 million in 2022, and $41.8 million in 2021. In accordance with GASB 96, the Health System has recorded a long-term lease liability of $15.8 million in 2023 and $7.6 million in 2022. Unearned revenue for the Health System totaled $37.4 million in 2023. In collaboration with Nationwide Children's Hospital, The James is currently constructing 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 $36.3 million of funding from Nationwide Children's Hospital for construction of the building.

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, 2023, 2022 and 2021 is summarized as follows:

	2023	2022 (in thousands)	2021
Net Position			
Invested in capital assets, net of related debt	2,032,008	1,828,160	1,427,557
Restricted, nonexpendable	8,063	7,743	7,690
Restricted, expendable	30,924	24,131	32,645
Unrestricted	806,111	735,221	426,334
Net Position	**$ 2,877,106**	**$ 2,595,255**	**$ 1,894,226**

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 2023, Net Position totaled $2,877.1 million, an increase of $281.9 million compared to 2022 due to higher surgical volumes, new outpatient facilities and growth in oncology and non-oncology infusions. Included in the change in Net Position is a $123.1 million pension expense related to GASB 68 as well a $68.4 million OPEB benefit related to GASB 75 reflecting a combination of negative investment returns and a reduction in the discount rate used to calculate the total OPEB liability.

In 2022, Net Position totaled $2,595.3 million, an increase of $701.1 million compared to 2021 due to higher demand for hospital outpatient services. Included in the change in Net Position is a $182.2 million benefit related to GASB 68 as well a $157.4 million benefit to GASB 75 reflecting strong investment returns for the programs.

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, 2023, 2022 and 2021 is as follows:

	Fiscal Year June 30,		
	2023	2022 (in thousands)	2021
Income and Change in Net Position			
Operating Revenues	$ 4,444,018	$ 4,185,259	$ 3,940,110
Operating Expenses	4,028,707	3,323,780	2,683,427
Operating Income	415,311	861,479	1,256,683
Non-Operating (Expenses) Revenues	(165,172)	(191,216)	94,958
Income Before Other Changes in Net Position	250,139	670,263	1,351,641
Medical Center investments	$ -	$ -	$ (183,960)
Capital contributions	31,392	30,713	19,848
Additions to permanent endowments	320	53	2,173
Other Changes in Net Position	31,712	30,766	(161,939)
Increase in Net Position	$ 281,851	$ 701,029	$ 1,189,702
Net Position - Beginning of Year	2,595,255	1,894,226	702,299
Cumulative effect of accounting change	-	-	2,225
Net Position - End of Year	$ 2,877,106	$ 2,595,255	$ 1,894,226

Operating Revenues

In 2023, total operating revenues grew $258.8 million or 6.2% over the prior fiscal year. Inpatient surgical volume increased 3.1% while outpatient surgical volume increased 12.3% compared to 2022. The Health System's oncology and non-oncology infusion sites grew 10.8%. Outpatient Care Dublin recorded approximately 83,300 new visits in 2023. Operating revenues also included a $24.6 million increase for the Specialty Retail Pharmacy from 2022 to 2023.

In 2022, total operating revenues grew $245.1 million or 6.2% over the prior fiscal year. Outpatient surgical volume increased 5.5% compared to 2021. The James experienced a 4.5% increase in chemotherapy volume and the Health System non-chemotherapy infusion sites grew 23.7%. In addition, procedural volumes including electrophysiology, radiation treatments and rehabilitation contributed to the increase in outpatient activity. Outpatient Care New Albany recorded approximately 10,000 new patient visits in 2022. Operating revenues also included a $44.2 million increase for the Specialty Retail Pharmacy from 2021 to 2022.

Approximately 84.6% 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. In addition, the integration of HP3 created a leased staffing arrangement for salaries and benefits of Health System employees supporting the transitioned practices. OSUP reimbursed the Health System for these employee salaries and benefits which were recorded in Other Operating Revenues under the Health System. HP3 revenue totaled $75.5 million in 2023. 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 $273.7 million to Health System operating revenues in 2023, $249.1 million in 2022, and $204.9 million in 2021. 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 $17.5 million of operating revenues in 2023, $17.3 million in 2022, and $13.9 million of operating revenues in 2021. 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 $84.5 million in Other Operating Revenues related to CICIP in 2023 compared to $89.1 million in 2022 and $97.2 in 2021.

	Fiscal Year June 30,		
	2023	2022 (in thousands)	2021
Revenues			
Net patient service revenue less provision for bad debts	$ 3,757,576	$ 3,641,873	$ 3,462,578
Other Operating Revenues	686,442	543,386	477,532
Total Operating Revenue	**$ 4,444,018**	**$ 4,185,259**	**$ 3,940,110**

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). Most reimbursement rates 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 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 2023, outpatient costs were paid at 89% PCR.

The Health System has estimated and recorded settlement amounts for all unsettled Medicare and Medicaid cost reports through June 30, 2023. 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.

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 2023, 2022 and 2021 fiscal years are as follows:

	Fiscal Year June 30,		
Payor Mix	**2023**	**2022**	**2021**
Managed Care	36.9%	37.3%	36.9%
Medicare	40.8%	39.1%	38.7%
Medicaid	17.7%	18.8%	19.4%
Self Pay	1.6%	1.4%	1.6%
Other	3.0%	3.4%	3.4%
	100.0%	**100.0%**	**100.0%**

Operating Expenses

A comparison of operating expenses for the three years ended June 30, 2023, 2022 and 2021 is summarized as follows:

	Fiscal Year June 30,		
	2023	2022 (in thousands)	2021
Expenses			
Salaries and benefits	$ 1,730,058	$ 1,654,822	$ 1,527,560
Supplies and drugs	1,330,794	1,202,397	1,101,797
Purchased services	547,474	472,366	428,023
Depreciation	217,436	199,591	176,212
Pension expense (benefit)	123,103	(182,154)	(66,358)
OPEB (benefit)	(68,422)	(157,421)	(612,473)
Other expenses	148,264	134,179	128,666
Total Operating Expenses	**$ 4,028,707**	**$ 3,323,780**	**$ 2,683,427**

Operating expenses increased $704.9 million or 21.2% from 2022 to 2023 as the healthcare industry continued to face rising costs related to labor shortages, inflationary pressure, and throughput challenges. The increase in operating expenses is primarily attributed to increases in medical supplies as well as salaries and benefits. Total pension and OPEB benefit recognized in 2023 by the Health System including employer contributions totaled $217.3 million. Total pension and OPEB benefit included $162.6 million of employer contributions, $123.1 million pension expense related to GASB 68 accruals, and $68.4 million OPEB benefit related to GASB 75 accruals.

Salaries and benefits grew $75.2 million or 4.5% from 2022 to 2023 and includes significant costs for premium and incentive pay reflecting labor shortages and the challenging environment around hiring nursing and clinical care positions. Supplies and drugs increased $128.4 million or 10.7%. The increase in supplies was a result of the growth in surgeries and outpatient procedural volumes as well as inflationary impacts felt across the Health System. The growth in drugs is due to increased volumes in chemotherapy at The James as well as increased volumes at Health System non-oncology infusion sites. Additionally, drug costs increased at the Specialty Retail Pharmacy as a result of higher volumes in 2023. Purchased services grew $75.1 million or 15.9% in 2023 reflecting increased maintenance costs associated with information technology and clinical care systems. Additionally, the Health System transferred $47.2 million to OSUP for Anesthesia practice support related to the HP3 transition.

Adjusted for activities (measuring both inpatient and outpatient activity), total operating expense increased 1.3% from 2022 to 2023. The Health System employed 14,900 full time equivalent employees (FTEs) in 2023, 14,400 in 2022, and 14,400 in 2021.

Non-Operating Revenue and Expenses

The Health System incurred a total of $46.6 million in interest expense in 2023 with the majority paid to the University to service debt incurred on behalf of the Health System. The Health System incurred a total of $44.6 million and $29.5 million of interest expense in 2022 and 2021, 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 2023 includes a $12.6 million unrealized gain and $16.5 million of interest income related to the Long-Term Investment Pool. This compares to a $26.3 million unrealized loss and $10.8 million of interest income in 2022 and $78.6 million unrealized gain and $10.2 million of interest income in 2021.

Income Before Other Changes in Net Position

Income Before Other Changes In Net Position was $250.1 million in 2023 compared to $670.3 million in 2022 and $1,351.6 million in 2021. Income Before Other Changes in Net Position in 2023 includes Medical Center Investments of $229.5 million reinvested to support clinical research and education, as well as various patient programs at the Medical Center. Impacts to Income Before Other Changes In Net Position include pension expense of $123.1 million in 2023 compared to pension benefit of $182.2 million in 2022 and a pension benefit of $66.4 million in 2021. This reflects the annual accounting for GASB 68. OPEB benefit was $68.4 million in 2023 compared to OPEB benefit of $157.4 million in 2022 and OPEB benefit of $612.5 million in 2021, reflecting annual accounting for GASB 75. Additionally, the decrease in Income Before Other Changes in Net Position for 2023 reflects higher premium and incentive pay as a result of staffing challenges and higher supply cost due to inflationary growth with medical supplies.

Other Changes in Net Position

The Health System's other changes in net position include capital contributions of $31.4 million in 2023, $30.7 million in 2022, and $19.8 million in 2021 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, 2023, 2022 and 2021 is summarized as follows:

	2023	2022	2021
		(in thousands)	
Cash Flows			
Receipts from patients and third-party payors	$ 3,640,890	$ 3,421,803	$ 3,369,773
Payments to and on behalf of employees	(1,800,403)	(1,717,815)	(1,587,265)
Payments to vendors for supplies and services	(1,811,168)	(1,601,661)	(1,354,503)
Other operating activities	435,921	455,228	215,767
Net cash provided by operating activities	465,240	557,555	643,772
Net cash (used) provided by non-capital financing activities	(158,858)	(145,678)	41,571
Net cash used in capital and related financing activities	(854,197)	(148,574)	(568,092)
Net cash provided (used) by investing activities	327,183	(518,173)	(171,082)
Net (Decrease) in Cash and Cash Equivalents	(220,632)	(254,870)	(53,831)
Cash and Cash Equivalents - Beginning of Year	$ 1,179,443	$ 1,434,313	$ 1,488,144
Cash and Cash Equivalents - End of Year	$ 958,811	$ 1,179,443	$ 1,434,313

Net cash provided by operating activities totaled $465.2 million compared to $557.6 million in 2022 and $643.8 million in 2021 reflecting strong activity from operations. Net cash used in non-capital financing activities totaled $158.9 million in 2023 which includes $229.5 million of investments paid for research, education, and programs at the Medical Center offset by $50.3 million of federal and state stimulus 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 $854.2 million in 2023, which includes $750.1 million of capital asset purchases. Net cash provided by investing activities totaled $327.2 million. In 2022, the Health System purchased $715.4 million of investments from the University related to general receipt bonds. The Health System purchased $117.0 million of investments in the long-term Investment pool in 2023 and $85.8 million in 2022. In addition, the Health System received $29.6 million of interest income in 2023 compared to $25.6 million of interest income in 2022.

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 is continuing its vision to push the boundaries of discovery and knowledge, solve significant health problems and deliver unparalleled care. The Medical Center has developed a multifaceted strategic plan focused on talent and culture, research, education, health and well-being, and resource stewardship. This plan will advance the Academic Health Care goal and will continue the Health System's history of success.

The Health System has embarked on a plan and has expanded its care model with new, large outpatient care facilities at New Albany and Dublin. These comprehensive facilities are a continuation of a suburban outpatient care program that supports growth in the region and excellence in academic health. Construction continues on the Outpatient Care West Campus cancer focused facility and is scheduled to open July 2023. The center will provide collaborative outpatient care for a variety of cancers and is home to the first outpatient cancer surgery facility. The center will be home to central Ohio's first proton therapy center, which is scheduled to open in October 2023. Additionally, the new inpatient hospital tower is scheduled to open in early 2026 and 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 Health System will continue to create 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 the community and also keeping the 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. 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)

	As of June 30, 2023	As of June 30, 2022
Assets		
Current assets:		
Cash and cash equivalents on deposit with the University	$ 958,811	$ 1,179,443
Patient accounts receivable, net of provision for bad debts of $75,386 in 2023 and $98,841 in 2022	464,038	457,684
Pledge receivables, net	6,697	2,673
Other receivables	127,798	95,322
Inventory	75,551	69,671
Prepaid expenses and other current assets	30,921	23,964
Total current assets	1,663,816	1,828,757
Non-current assets:		
Unexpended bond proceeds	46,323	460,868
Long-term investment pool	560,234	430,631
Other long-term investments	139,956	139,956
Equity method investments	20,191	18,439
Capital assets, net	3,227,596	2,671,133
Net OPEB Asset	739	189,150
Long-term lease receivable	160,098	84,274
Long-term pledge receivables, net	5,699	5,035
Long-term receivables and other non-current assets	26,026	22,405
Total non-current assets	4,186,862	4,021,891
Total assets	5,850,678	5,850,648
Deferred outflows:		
Pension	670,559	166,579
OPEB	114,056	594
Other	424	424
Total deferred outflows	785,039	167,597
Total assets and deferred outflows	$ 6,635,717	$ 6,018,245
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 278,854	$ 351,778
Medicare Advance Payment Program	-	79,601
Accrued salaries and benefits	73,197	71,400
Current portion of compensated absences	6,037	7,227
Current portion lease liability	13,454	9,260
Third-party payor settlements	3,344	21,952
Current portion of long-term debt	71,763	71,287
Total current liabilities	446,649	612,505
Non-current liabilities:		
Long-term debt less current portion	1,104,764	1,176,527
Compensated absences less current portion	74,369	77,417
Third-party payor settlements less current portion	74,697	87,306
Long-term lease liability	51,930	46,769
Net pension liability	1,744,389	485,582
Net OPEB liability	38,085	-
Unearned Revenue	37,441	18,564
Other non-current liabilities	6,423	2,621
Total non-current liabilities	3,132,098	1,894,786
Total liabilities	3,578,747	2,507,291
Deferred inflows:		
Pension	3,928	635,653
OPEB	13,169	194,625
Leases	162,767	85,421
Total deferred inflows	179,864	915,699
Total liabilities and deferred inflows	3,758,611	3,422,990
Net Position		
Net investment in capital assets	2,032,008	1,828,160
Restricted:		
Nonexpendable	8,063	7,743
Expendable	30,924	24,131
Unrestricted	806,111	735,221
Total net position	2,877,106	2,595,255
Total liabilities, deferred inflows, and net position	$ 6,635,717	$ 6,018,245

The accompanying notes are an integral part of these financial statements

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

	Year Ended June 30, 2023	Year Ended June 30, 2022
Operating Revenues		
Net patient service revenue	$ 3,776,378	$ 3,703,452
Provision for bad debts	(18,802)	(61,579)
Net patient service revenue less provision for bad debts	3,757,576	3,641,873
Other revenue	686,442	543,386
Total Operating Revenue	4,444,018	4,185,259
Operating Expenses		
Salaries and benefits	1,730,058	1,654,822
Supplies and drugs	1,330,794	1,202,397
Purchased services	547,474	472,366
Depreciation and amortization	217,436	199,591
Pension expense (benefit)	123,103	(182,154)
OPEB benefit	(68,422)	(157,421)
Other expenses	148,264	134,179
Total Expenses	4,028,707	3,323,780
Operating Income	415,311	861,479
Non-Operating (Expenses) Revenues		
Interest expense	(46,635)	(44,621)
Income (loss) from investments	42,241	(726)
Medical Center investments	(229,502)	(190,419)
Federal and state stimulus funding	50,279	25,336
Other non-operating revenues	18,445	19,214
Total Non-Operating (Expenses) Revenues, net	(165,172)	(191,216)
Income Before Other Changes in Net Position	250,139	670,263
Other Changes in Net Position		
Capital contributions	31,392	30,713
Additions to permanent endowments	320	53
Total Other Changes in Net Position	31,712	30,766
Increase in Net Position	281,851	701,029
Net Position - Beginning of Year	2,595,255	1,894,226
Net Position - End of Year	$ 2,877,106	$ 2,595,255

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, 2023	Year Ended June 30, 2022
Cash flows from Operating Activities:		
Receipts from patients and third-party payors	$ 3,720,491	$ 3,597,056
Medicare Advance Payment Program	(79,601)	(175,253)
Other receipts	638,597	603,409
Payments to and on behalf of employees	(1,800,403)	(1,717,815)
Payments to vendors for supplies and services	(1,811,168)	(1,601,661)
Payments on other expenses	(202,676)	(148,181)
Net cash provided by operating activities	465,240	557,555
Cash Flows from Non-Capital Financing Activities:		
Federal and state stimulus funding	50,279	25,336
Medical Center investments	(229,502)	(190,419)
Other receipts	20,365	19,405
Net cash used in non-capital financing activities	(158,858)	(145,678)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of long-term debt	-	715,395
Purchase of capital assets	(750,064)	(777,229)
Repayments of long-term debt and capital lease obligations	(88,890)	(72,907)
Cash paid for interest	(46,635)	(44,621)
Contributions and transfers for property acquisitions	31,392	30,788
Net cash used in capital and related financing activities	(854,197)	(148,574)
Cash Flows from Investing Activities:		
Purchases of investments	(116,993)	(801,216)
Sales of investments	414,545	257,445
Investment Income, net of related expenses	29,631	25,598
Net cash provided by (used in) investing activities	327,183	(518,173)
Net (Decrease) in Cash and Cash Equivalents	(220,632)	(254,870)
Cash and Cash Equivalents - Beginning of Year	1,179,443	1,434,313
Cash and Cash Equivalents - End of Year	$ 958,811	$ 1,179,443
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 415,311	$ 861,479
Adjustments to reconcile operating income to net cash provided by operations:		
Pension Expense	123,103	(182,154)
OPEB Benefit	(68,422)	(157,421)
Depreciation and amortization	217,436	199,591
Changes in assets and liabilities:		
Patient accounts receivable, net	(6,354)	(35,740)
Medicare Advance Payment Program	(79,601)	(175,253)
Other receivables	(40,785)	62,498
Equity method investments	(1,753)	1,662
Lease receivable	1,522	(1,851)
Inventory	(5,880)	(3,627)
Prepaid expenses and other assets	(6,957)	(5,390)
Accounts payable/accrued expenses	(71,401)	17,619
Accrued salaries and benefits	1,797	2,715
Third party payor settlements	(31,217)	(9,295)
Compensated absences	(4,238)	(6,321)
Other liabilities	22,679	(10,957)
Net cash provided by operating activities	$ 465,240	$ 557,555
Non Cash Transactions		
Unrealized gain (loss) on investments	$ 12,610	$ (26,324)
Change in Construction in progress in accounts payable	(39,652)	36,506

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

NOTE 1 – ORGANIZATION

The Ohio State University Wexner Medical Center Health System (the "Health System" or the “System”) operates under the governance of The Ohio State University Board of Trustees (the “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 federal and state income tax as an integral part of the State of Ohio. The University is subject to the unrelated business income tax for activities that are not related to their tax-exempt purposes.

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 (“OSUP”), 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 in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

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

New Accounting Pronouncements:

In 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 Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for periods beginning after December 31, 2024 (FY2026).

In April 2022, the GASB issued Statement No. 99, Omnibus 2022. This Statement includes an extension of the use of LIBOR, clarifies provisions related to the new Statements for leases, public-private partnerships (PPPs) and subscription-based IT arrangements (SBITAs), and the classification and reporting of derivative instruments. The provisions related to LIBOR are effective upon issuance, the provisions related to leases, PPPs and SBITAs are effective for periods beginning after June 15, 2022 (FY2023), and the provisions related to derivatives are effective for periods beginning after June 15, 2023 (FY2024).

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections – an amendment to GASB Statement No. 62. This Statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Statement also provides guidance on related note disclosures and addresses corrections to Required Supplementary Information and Supplementary Information. The Statement is effective for fiscal years beginning after June 15, 2023 (FY2024).

In June 2022, the GASB issued Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The Statement is effective for fiscal years beginning after December 15, 2023 (FY2025).

Health System management is currently assessing the impact that implementation of GASB Statements No. 93, 99, 100 and 101 will have on the Health System's financial statements.

Implementation of GASB Statement No. 94

In fiscal year 2023, the Health System implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement addresses PPPs and APAs and supersedes guidance in GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Statement applies the right-of-use model set forth in GASB Statement No. 87, *Leases* to PPP arrangements and provides accounting and disclosure guidance for both transferors and operators of governmental assets. The adoption of the new standard resulted in no changes in Health System reporting.

Implementation of GASB Statement No. 96

In fiscal year 2023, the Health System implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB 96 extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. Under GASB 96, governments are required to identify arrangements that qualify as SBITAs and recognize 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 subscription liability is measured at the present value of subscription payments expected to be made during the subscription term.

The Health System adopted GASB Statement No. 96 as of July 1, 2021 with no net impact on opening net position. The effects of the adoption retroactively to the Health System's financial statements for the year ended June 30, 2022 were a $18,635 increase in lease asset, a $4,098 decrease in prepaid expenses for a $14,537 increase in total assets and deferred outflows and a $14,257 increase in lease liability. The adoption also included a $8,963 decrease in purchased services, a $8,235 increase in depreciation and amortization and a $448 increase in interest expense. Total increase in net position was $280.

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.

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, including lease liabilities.
- 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.

The Health System first applies resources in restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents on Deposit with the University:

Cash and cash equivalents of $958,811 at June 30, 2023 and $1,179,443 at June 30, 2022 consist primarily of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of 90 days. Such investments consist primarily of U.S. Government obligations, U.S. Agency obligations, repurchase agreements and money market funds. 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 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. 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, 2023. 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, 2020 and June 30, 2018 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, 2018 and June 30, 2017 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.

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 as current assets 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. 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.

(in thousands)

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.

Other Long-term Investments:

Other Long-term Investments are funds 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

Other Long-term Investments consisted of the following at June 30, 2023 and 2022:

	2023	2022
Funds held for capital replacement	$ 91,925	$ 91,925
Funds held for debt retirement	28,031	28,031
Funds held for research initiatives	20,000	20,000
Total	**$ 139,956**	**$ 139,956**

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

Amounts invested in the Ohio State University Long-Term Investment Pool are reported at fair value 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*. 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.

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 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 $8,063 and $7,743 at June 30, 2023 and 2022, respectively.

(in thousands)

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Ohio, permits the Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as deemed prudent. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long-Term Investment Pool, and the associated net position is generally classified as restricted-expendable.

Equity method investments:

Equity method investments are recorded using the equity method of accounting.

Capital Assets:

Capital assets are long-life assets in the service of the Health System and include land, buildings, improvements, equipment and software. The Health System applies capitalization thresholds for items with a cost of $5 or more and a useful life of at least two years as capital assets. Groups of like items less than $5 individually but exceeding $5 in total may be considered a capital asset when associated with new construction or renovation. 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 applying the half-year convention. Assets placed in service prior to July 2021 adopt the month placed in service convention. The life of buildings ranges 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. Interest expense incurred on borrowed funds during the period of construction of capital assets is expensed as a component of the cost of acquiring those assets.

Net Patient Service Revenue:

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, 2023 and 2022 are summarized as follows:

	2023	2022
Total patient service revenue	$ 11,396,212	$ 11,112,886
Contractual allowances and other discounts	(7,619,834)	(7,409,434)
Provision for bad debts	(18,802)	(61,579)
Net patient service revenue less provision for bad debts	**$ 3,757,576**	**$ 3,641,873**

(in thousands)

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 2023 and 2022, respectively, are as follows:

Payor	2023		2022	
Medicare	$1,089,511	28.8%	$1,055,544	28.5%
Medicaid	561,840	14.9%	553,121	15.0%
Managed Care	2,117,984	56.1%	2,090,109	56.4%
Anthem	*771,736*		*707,125*	
United Healthcare	*472,839*		*474,790*	
MMO	*222,748*		*265,950*	
Aetna	*201,573*		*208,722*	
Other	*449,088*		*433,522*	
Self Pay	7,043	0.2%	4,678	0.1%
Total	**$3,776,378**	**100.0%**	**$3,703,452**	**100.0%**

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 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. 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 care for the fiscal years 2023 and 2022 are as follows:

	2023	2022
Total cost of charity care	$ 63,443	$ 55,359
Less Health Care Assurance Program support	(2,347)	(15,370)
Net cost of charity care	**$ 61,096**	**$ 39,989**

Other Revenue:

Other Revenue is composed of items such as reference labs, cafeteria operations, rental agreements, retail pharmacy operations, Neonatal Intensive Care Unit, HP3 staff lease agreement, 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.

High-Performing Practice Plan:

In an effort to unify all faculty practices to create a fully integrated, high-performing practice plan (HP3), the faculty practices operated by the Health System moved to OSU Physicians, Inc. (OSUP) in July 2022. The Health System practices included Anesthesiology, Maternal Fetal Medicine, Neurosurgery, Orthopedics, Sports Medicine, and Family and Community Medicine. In accordance with GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, the impact of the physician integration was a reduction to the Health System Operating Revenues of $224.5 million and Operating Expenses of $254.0 million.

NOTE 3 – COVID-19 AND CARES ACT ASSISTANCE

The Covid-19 pandemic continued to have an impact on the activities and results of Health System operations in 2023. Health System expenses were also significantly impacted due to staffing shortages that drove up salary cost related to premium pay and agency spend. Agency Staffing Salaries increased $86,166 and contract FTEs grew 110.2% year over year. The global supply chain challenges caused inflationary pressure with medical supplies and capital project costs.

Health Care Provider Relief Funds:

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. 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 were met. In 2021, the Health System received and recognized an additional $22,598 in Provider Relief Funds. In 2023, the Health System recognized $37,342 in Provider Relief Funds. This includes a $20,495 grant subaward from OSUP and the recognition of the remaining $16,847 funds from fiscal year 2021, which were previously reserved.

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. As of June 2023, CMS has recouped the entire $274,915 related to the Medicare Accelerated and Advance Payment Program and the Health System has no outstanding liabilities related to the 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. In 2022, FEMA obligated an additional project with a total amount of $12,134. Additionally, FEMA obligated four projects that totaled $8,657 in 2023. 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 and the FEMA projects were obligated.

NOTE 4 – LONG-TERM INVESTMENT POOL

Since fiscal year 2017, the Health System has transferred a total of $436,697 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 6,310 Board authorized funds and 218 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.

(in thousands)

The University holds investments in limited partnerships, such as hedge, private equity, venture capital and other alternative investment funds, which are measured at net asset 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 measured 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.

As of June 30, 2023, the original cost and additions of the Health System's operating investments in the pool was $489,382 and the market value of the Health System's operating investments in the pool was $560,234. As of June 30, 2022, the original cost and additions of the Health System's operating investments in the pool was $372,389 and the market value of the Health System's operating investments in the pool was $430,631.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	2023			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Capital assets being depreciated:				
Land and Improvements	$ 255,648	$ 20,110	$ 100	$ 275,658
Buildings	1,487,863	138,765	1,737	1,624,891
Leasehold Improvements	34,331	-	2,148	32,183
Equipment - Fixed	668,250	102,201	4,099	766,352
Equipment - Moveable	956,412	103,654	48,726	1,011,340
Total depreciable assets	3,402,504	364,730	56,810	3,710,424
Less: Accumulated depreciation for				
Land and Improvements	75,278	11,020	100	86,198
Buildings	645,108	75,017	1,274	718,851
Leasehold Improvements	28,429	883	1,189	28,123
Equipment - Fixed	383,892	29,988	3,770	410,110
Equipment - Moveable	687,697	90,978	44,048	734,627
Total accumulated depreciation	1,820,404	207,886	50,381	1,977,909
Construction in Progress	1,010,380	796,645	404,489	1,402,536
Capital assets, net excluding lease assets	**$ 2,592,480**	**$ 953,489**	**$ 410,918**	**$ 3,135,051**
Lease assets, net (Note 7)				**$ 92,545**
Total capital assets, net as reported in statement of net position				**$ 3,227,596**

Capital assets placed in service in 2023 totaled $362,711. The capital assets placed in service additions are primarily due to the completion of the new outpatient care ambulatory facility in Dublin, the opening of the Pelotonia Research Center, the purchase of land for a future ambulatory site in Powell, updates to existing ambulatory locations, and other strategic Information Technology initiatives.

(in thousands)

	2022			
	Beginning Balance	Additions	Retirements and Reductions	Ending Balance
Capital assets being depreciated:				
Land and Improvements	$ 222,066	$ 33,582	$ -	$ 255,648
Buildings	1,387,035	100,872	44	1,487,863
Leasehold Improvements	33,690	641	-	34,331
Equipment - Fixed	617,858	50,392	-	668,250
Equipment - Moveable	884,411	111,514	39,513	956,412
Total depreciable assets	3,145,060	297,001	39,557	3,402,504
Less: Accumulated depreciation for				
Land and Improvements	64,511	10,767	-	75,278
Buildings	576,455	68,691	38	645,108
Leasehold Improvements	27,289	1,140	-	28,429
Equipment - Fixed	358,550	25,342	-	383,892
Equipment - Moveable	646,244	80,826	39,373	687,697
Total accumulated depreciation	1,673,049	186,766	39,411	1,820,404
Construction in Progress	529,522	747,360	266,502	1,010,380
Capital assets, net excluding lease assets	**$ 2,001,533**	**$ 857,595**	**$ 266,648**	**$ 2,592,480**
Lease assets, net (Note 7)				**$ 78,653**
Total capital assets, net as reported in statement of net position				**$ 2,671,133**

Capital assets placed in service in 2022 were $305,752. 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, the new outpatient care ambulatory facility in New Albany, 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.

NOTE 6 – LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	2023			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2021, 2.85% through 2052	$ 707,978	$ -	$ 15,154	$ 692,824
2015, 4.75% through 2031	5,373	-	534	4,839
2013, 4.75% through 2032	290,084	-	23,220	266,864
2010, 4.95% through 2031	184,489	-	18,343	166,146
2008, 3.83%-4.03% through 2029	33,553	-	4,609	28,944
2005, 3.83%-4.03% through 2026	18,833	-	5,687	13,146
2003, 4.32%-4.57% through 2024	4,203	-	3,344	859
1999, 5.14% through 2030	3,301	-	396	2,905
Total Long Term Obligations	**1,247,814**	**-**	**71,287**	**1,176,527**
Less Current Portion of Long-Term Debt	71,287	71,763	71,287	71,763
Net Long Term Debt	**$ 1,176,527**	**$ (71,763)**	**$ -**	**$ 1,104,764**

(in thousands)

	2022			
	Beginning Balance	Additions	Reductions	Ending Balance
University Bonds:				
2021, 2.85% through 2052	$ -	$ 715,395	$ 7,417	$ 707,978
2015, 4.75% through 2031	5,882	-	509	5,373
2013, 4.75% through 2032	312,229	-	22,145	290,084
2010, 4.95% through 2031	201,948	-	17,459	184,489
2008, 3.83%-4.03% through 2029	37,980	-	4,427	33,553
2005, 3.83%-4.03% through 2026	24,293	-	5,460	18,833
2003, 4.32%-4.57% through 2024	7,399	-	3,196	4,203
1999, 5.14% through 2030	3,683	-	382	3,301
Other Financing:				
2016, 1.67% through 2021	221	-	221	-
2016, 2.058% through 2021	345	-	345	-
Mgmt Svc , 4.38% through 2022	99	-	99	-
Total Long Term Obligations	**594,079**	**715,395**	**61,660**	**1,247,814**
Less Current Portion of Long-Term Debt	54,144	78,803	61,660	71,287
Net Long Term Debt	**$ 539,935**	**$ 636,592**	**$ -**	**$ 1,176,527**

University Bonds

The amounts disclosed in the table above as University Bonds represent funds borrowed from the University by the Health System. The amounts borrowed relate to bonds issued by the University, whereby the related proceeds from the bonds have been borrowed by the Health System to finance various capital projects. The interest rates and repayment terms of the funds borrowed by the Health System are subject to the agreement between the University and the Health System.

No new debt was issued in 2023. The University issued general receipts bonds in 2022 and the Health System borrowed an additional $715,395 from the University. The $715,395 addition to debt from the University is currently funding the construction of the new inpatient hospital. The 1.9 million square foot inpatient hospital is the largest single facilities project ever undertaken at Ohio State with up to 820 beds in private-room settings to elevate patient-centered care, safety and training for the next generation of health care providers.

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

Principal	Interest	Total
71,763	41,362	113,125
73,997	38,255	112,252
71,859	35,095	106,954
73,920	31,969	105,889
77,177	28,705	105,882
292,808	97,510	390,318
109,793	65,881	175,674
126,586	49,087	175,673
145,949	29,725	175,674
132,675	7,863	140,538
$ 1,176,527	**$ 425,452**	**$ 1,601,979**

(in thousands)

NOTE 7 – LEASES AND SUBSCRIPTION-BASED IT ARRANGEMENTS

Health System as Lessee and Subscription-Based IT Arrangements

The Health System is a lessee for various noncancellable leases of real estate and equipment. The Health System also has noncancellable subscription IT arrangements (similar to a lease) for the right-to-use information technology hardware and software (subscription IT arrangements). Lease assets and subscription IT assets are reported with capital assets. Lease and subscription IT liabilities are reported as lease liability in the Statement of Net Position.

Lease and subscription IT asset activity for year ended June 30, 2023 is summarized as follows:

	Beginning Balance	Additions	Remeasurements	Deductions	Ending Balance
Lease assets:					
Real estate	$ 69,162	$ 5,359	$ 122	$ 3,696	$ 70,947
Equipment	-	1,092	-	-	1,092
Total lease assets	69,162	6,451	122	3,696	72,039
Less accumulated amortization - lease assets:					
Real estate	9,144	4,279	-	727	12,696
Equipment	-	197	-	-	197
Total accumulated amortization	9,144	4,476	-	727	12,893
Total lease assets, net	60,018	1,975	122	2,969	59,146
Subscription IT assets	26,870	24,625	-	-	51,495
Less accumulated amortization	8,235	9,861	-	-	18,096
Subscription IT assets, net	18,635	14,764	-	-	33,399
Total lease and subscription IT assets, net	$ 78,653	$ 16,739	$ 122	$ 2,969	$ 92,545

Lease and subscription IT asset activity for year ended June 30, 2022 is summarized as follows:

	Beginning Balance	Additions	Remeasurements	Deductions	Ending Balance
Lease assets:					
Real estate	$ 69,180	$ -	$ -	$ 18	$ 69,162
Equipment	-	-	-	-	-
Total lease assets	69,180	-	-	18	69,162
Less accumulated amortization - lease assets:					
Real estate	4,571	4,591	-	18	9,144
Equipment	-	-	-	-	-
Total accumulated amortization	4,571	4,591	-	18	9,144
Total lease assets, net	64,609	(4,591)	-	-	60,018
Subscription IT assets	23,911	2,959	-	-	26,870
Less accumulated amortization	-	8,235	-	-	8,235
Subscription IT assets, net	23,911	(5,276)	-	-	18,635
Total lease and subscription IT assets, net	$ 88,520	$ (9,867)	$ -	$ -	$ 78,653

Lease and subscription IT liability activity for the year ended June 30, 2023 is summarized as follows:

	Beginning Balance	Additions	Remeasurements	Reductions	Ending Balance	Current Portion
Lease liabilities	$ 41,772	$ 2,490	$ (158)	$ 5,578	$ 38,526	$ 2,404
Subscription IT liabilities	$ 14,257	$ 24,625	$ -	$ 12,024	26,858	$ 11,050
Total	$ 56,029	$ 27,115	$ (158)	$ 17,602	$ 65,384	$ 13,454

(in thousands)

Lease and subscription IT liability activity for the year ended June 30, 2022 is summarized as follows:

	Beginning Balance	Additions	Remeasurements	Reductions	Ending Balance	Current Portion
Lease liabilities	$ 44,505	$ -	$ -	$ 2,733	$ 41,772	$ 2,626
Subscription IT liabilities	$ 23,557	$ 2,626	$ -	$ 11,926	14,257	$ 6,634
Total	$ 68,062	$ 2,626	$ -	$ 14,659	$ 56,029	$ 9,260

Future annual lease and subscription IT payments for the Health System are as follows:

Future Lease Payments

	Principal	Interest	Total
Year Ending June 30,			
2024	$ 2,404	$ 1,667	$ 4,071
2025	2,428	1,575	4,003
2026	2,042	1,487	3,529
2027	2,097	1,400	3,497
2028	2,191	1,311	3,502
2029-2033	6,985	5,501	12,486
2034-2038	4,988	4,122	9,110
2039-2043	3,515	3,244	6,759
2044-2048	4,835	2,261	7,096
2049-2053	4,753	1,072	5,825
2054-2058	2,288	120	2,408
	$ 38,526	$ 23,760	$ 62,286

Future SBITA Payments

	Principal	Interest	Total
Year Ending June 30,			
2024	$ 11,050	$ 630	$ 11,680
2025	7,835	373	8,208
2026	3,922	224	4,146
2027	4,051	94	4,145
	$ 26,858	$ 1,321	$ 28,179

Health System as Lessor

The Health System is lessor for various noncancellable leases of real estate. Lease-related revenues recognized by the Health System for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Lease revenue	$ 14,208	$ 8,185
Interest revenue	7,150	3,791
	$ 21,358	$ 11,976

(in thousands)

The Health System is lessor for various noncancellable leases of real estate. Lease-related revenues recognized by the Health System for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Lease revenue	$ 8,185	$ 6,225
Interest revenue	3,791	2,366
	$ 11,976	$ 8,591

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 July 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). Effective November 1, 2022, Fund I was dissolved and the remaining liabilities were transferred to Oval Limited. A Loss Portfolio Transfer Assumption Agreement was executed, and a premium was paid to Oval Limited to accept the remaining liabilities. After the premium and expenses were paid, the Fund I was closed and the remaining Fund I assets were transferred to the Health System during fiscal year 2023. 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, 2023. The medical liability contribution expense is recorded as period expense for the Health System. There was no medical liability contribution expense for fiscal years 2023 and 2022.

The University has also established a pure captive insurer (Oval Limited) that provides excess liability coverage over retained Fund I and Fund II liabilities. Both funds retain $4,000 per loss event with various annual aggregate limits and a $2,000 buffer layer in excess of this retention. Effective July 1, 2022, Oval Limited provides coverage with limits of $100,000 per loss event and in the aggregate. The risk written for fiscal years 2023 and 2022 are fully reinsured by a combination of reinsurance companies each of which has a minimum A.M and a best rating of A.

Oval Limited assets and liabilities are included in the University's financial statements but are not included in the Health System financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense. There were no contributions to Oval in fiscal years 2023 and 2022.

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.

(in thousands)

NOTE 9 - RETIREMENT PLANS

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

STRS Ohio and OPERS offer statewide cost-sharing multiple-employer defined benefit pension plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. In addition, the retirement systems provide other post-employment benefits (OPEB), consisting primarily of healthcare. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors.

In accordance with GASB Statements Nos. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities of the plans. Although changes in the net pension and OPEB liabilities generally are recognized as expense in the current period, certain items are deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 10 years).

The collective net pension liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2023 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 22,230,126	$ 29,296,534	
Proportion of the net pension liability - Health System	0.029%	5.933%	
Proportionate share of net pension liability	$ 6,347	$ 1,738,042	$ 1,744,389

The collective net OPEB liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2023 are as follows:

	STRS-Ohio	OPERS	Total
Net OPEB (asset) liability - all employers	$ (2,589,333)	$ 630,519	
Proportion of the net OPEB (asset) liability - Health System	0.029%	6.040%	
Proportionate share of net OPEB (asset) liability	$ (739)	$ 38,085	$ 37,346

(in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2023:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 81	$ 60,987	$ 61,068
Changes in assumptions	757	19,639	20,396
Net difference between projected and actual earnings on pension plan investments	221	515,711	515,932
Changes in proportion of university contributions	9	133	142
Employer contributions subsequent to the measurement date	527	72,494	73,021
Total	**$ 1,595**	**$ 668,964**	**$ 670,559**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 24	$ 2,648	$ 2,672
Changes in assumptions	569	-	569
Changes in proportion of university contributions	-	687	687
Total	**$ 593**	**$ 3,335**	**$ 3,928**

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2023:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 11	$ -	$ 11
Changes in assumptions	31	37,199	37,230
Net difference between projected and actual earnings on OPEB plan investments	13	76,778	76,791
Changes in proportion of university contributions	-	24	24
Total	**$ 55**	**$ 114,001**	**$ 114,056**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 111	$ 9,493	$ 9,604
Changes in assumptions	524	3,038	3,562
Changes in proportion of university contributions	$ -	$ 3	3
Total	**$ 635**	**$ 12,534**	**$ 13,169**

(in thousands)

Amounts reported as deferred outflows of resources related to pensions resulting from Health System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as 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
2024	$ 15	$ 73,555	$ 73,570
2025	(18)	119,942	119,924
2026	(168)	150,220	150,052
2027	646	248,427	249,073
2028	-	158	158
2029 and Thereafer	-	833	833
Total	**$ 475**	**$ 593,135**	**$ 593,610**

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
2024	(166)	13,397	13,231
2025	(164)	27,849	27,685
2026	(83)	23,681	23,598
2027	(35)	36,540	36,505
2028	(44)	-	(44)
2029 and Thereafer	(88)	-	(88)
Total	**$ (580)**	**$ 101,467**	**$ 100,887**

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 for the year ended June 30, 2023 (information below applies to both pensions and OPEB unless otherwise indicated).

(in thousands)

	STRS-Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145
Benefit Formula	**Pensions** – The Define Benefit (DB) Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective Aug. 1, 2015, the calculation 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, 2023, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit at any age. 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 regardless of age. **OPEB** – Ohio law authorizes the State Teachers Retirement Board to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to 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 partial reimbursement of the monthly Medicare Part B premiums. 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 $ 224.5 million or 54% of the total health care costs in fiscal 2022 (excluding deductibles, coinsurance and copayments). Medicare Part D is a federal program to help cover the costs of prescription drugs for Medicare beneficiaries. This program allows STRS Ohio to recover part of the cost for providing prescription coverage since all eligible STRS Ohio health care	**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. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment. **OPEB** – The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Effective January 1, 2022, eligible non-Medicare retirees are part of a Connector program and may be eligible for

(in thousands)

	STRS-Ohio	OPERS
	plans include creditable prescription drug coverage. For the year ended June 30, 2022, STRS Ohio received $ 97.7 million in Medicare Part D government reimbursements.	monthly allowances deposited to an HRA, similar to Medicare-enrolled retirees.
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 Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The employer and member contribution rates are 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, 2022, 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 2022, 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, 2022	December 31, 2022 (OPEB is rolled forward from December 31, 2021 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** June 30, 2022 for pensions and OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.00% **Inflation:** 2.50% **Projected Salary Increases:** Varies by service from 2.5% to 8.5% **Cost-of-Living Adjustments:** 0% effective July 1, 2017 **Payroll Increases:** 3.00% **Health Care Cost Trends:** 7.50% to 9.00% initial; 3.94% ultimate	**Valuation Date:** December 31, 2022 for pensions; December 31, 2021 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 6.9% for pensions; 6.0% for OPEB **Inflation:** 2.75% **Projected Salary Increases:** 2.75% - 10.75% **Cost-of-Living Adjustments:** Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2023, then 2.05% Simple **Health Care Cost Trends:** 5.50% initial; 3.50% ultimate in 2036

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td>Mortality Rates</td><td>For healthy retirees the post-retirement mortality rates are based on the Pub-2010 Teachers Healthy Annuitant Mortality Table, adjusted 110% for males, projected forward generationally using mortality improvement scale MP-2020; pre-retirement mortality rates are based on Pub-2010 Teachers Employee Table adjusted 95% for females, projected forward generationally using mortality improvement scale MP-2020. For disabled retirees, mortality rates are based on the Pub-2010 Teachers Disabled Annuitant Table projected forward generationally using mortality improvement scale MP-2020.</td><td>Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.</td></tr>
<tr><td>Date of Last Experience Study</td><td>June 30, 2021</td><td>December 31, 2020</td></tr>
<tr><td>Investment Return Assumptions</td><td>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:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Domestic Equity</td><td>26.0%</td><td>6.60%</td></tr>
<tr><td>International Equity</td><td>22.0%</td><td>6.80%</td></tr>
<tr><td>Alternatives</td><td>19.0%</td><td>7.38%</td></tr>
<tr><td>Fixed Income</td><td>22.0%</td><td>1.75%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>5.75%</td></tr>
<tr><td>Liquidity Reserves</td><td>1.0%</td><td>1.00%</td></tr>
<tr><td>Total</td><td>100%</td><td></td></tr>
</table>
* Returns presented as geometric means</td><td>The long term expected rates of return on defined benefit pension and health care investment assets were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2022 and the long-term expected real rates of return:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>22.0%</td><td>2.62%</td></tr>
<tr><td>Domestic Equities</td><td>22.0%</td><td>4.60%</td></tr>
<tr><td>Real Estate</td><td>13.0%</td><td>3.27%</td></tr>
<tr><td>Private Equity</td><td>15.0%</td><td>7.53%</td></tr>
<tr><td>International Equities</td><td>21.0%</td><td>5.51%</td></tr>
<tr><td>Risk Parity</td><td>2.0%</td><td>4.37%</td></tr>
<tr><td>Other Investments</td><td>5.0%</td><td>3.27%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as geometric means

The following table displays the Board-approved asset allocation policy for health care assets for 2022 and the long-term expected real rates of return:</td></tr>
</table>

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>34.0%</td><td>2.56%</td></tr>
<tr><td>Domestic Equities</td><td>26.0%</td><td>4.60%</td></tr>
<tr><td>REITs</td><td>7.0%</td><td>4.70%</td></tr>
<tr><td>International Equities</td><td>25.0%</td><td>5.51%</td></tr>
<tr><td>Risk Parity</td><td>2.0%</td><td>4.37%</td></tr>
<tr><td>Other Investments</td><td>6.0%</td><td>1.84%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as geometric means
</td></tr>
<tr><td>Discount Rate</td><td>Pensions -- The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022. 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, 2022. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2022.

OPEB -- The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2022. 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 7.00% was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2022.</td><td>Pensions -- The discount rate used to measure the total pension liability was 6.9% 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.

OPEB – A single discount rate of 5.22% was used to measure the OPEB liability on the measurement date of December 31, 2022; however, the single discount rate used at the beginning of the year was 6.00%. 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 4.05%. 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</td></tr>
</table>

(in thousands)

	STRS-Ohio	OPERS
		position and future contributions were sufficient to finance health care costs through 2054. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2054, and the municipal bond rate was applied to all health care costs after that date.
Changes in Assumptions Since the Prior Measurement Date	**Pensions** – There were no changes in assumptions since the prior measurement date of June 30, 2021. **OPEB** – There were no changes in assumptions since the prior measurement date of June 30, 2021.	**Pensions** – There were no changes in assumptions since the prior measurement date of December 31, 2021. **OPEB** – There were no changes in assumptions since the prior measurement date of December 31, 2020.
Benefit Term Changes Since the Prior Measurement Date	**Pensions** – There were no changes in benefit terms since the prior measurement date of June 30, 2021. **OPEB** -- Salary increase rates were updated based on the actuarial experience study for the period July 1, 2015 through June 30, 2021 and were changed from age based to service based. Healthcare trends were updated to reflect emerging claims and recoveries experience.	**Pensions** – There were no changes in benefit terms since the prior measurement date of December 31, 2021. **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.
Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.00%): $ 9,588 Current Rate (7.00%): $ 6,347 1% Increase (8.00%): $ 3,606	1% Decrease (5.90%): $ 2,617,533 Current Rate (6.90%): $ 1,738,042 1% Increase (7.90%): $ 1,006,684
Sensitivity of Net OPEB Liability (Asset) to Changes in Discount Rate	1% Decrease (6.00%): $ (683) Current Rate (7.00%): $ (739) 1% Increase (8.00%): $ (787)	1% Decrease (5.00%): $ 129,526 Current Rate (6.00%): $ 38,085 1% Increase (7.00%): $ (37,421)
Sensitivity of Net OPEB Liability (Asset) to Changes in Medical Trend Rate	1% Decrease in Trend Rate: $ (767) Current Trend Rate: $ (739) 1% Increase in Trend Rate: $ (705)	1% Decrease in Trend Rate: $ 35,671 Current Trend Rate: $ 38,085 1% Increase in Trend Rate: $ 40,741

(in thousands)

The collective net pension liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2022 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 12,785,899	$ 8,288,243	
Proportion of the net pension liability - Health System	0.022%	5.824%	
Proportionate share of net pension liability	$ 2,848	$ 482,734	$ 485,582

The collective net OPEB liabilities of the retirement systems and the Health System's proportionate share of these liabilities as of June 30, 2022 are as follows:

	STRS-Ohio	OPERS	Total
Net OPEB (asset) liability - all employers	$ (2,108,418)	$ (3,132,153)	
Proportion of the net OPEB (asset) liability - Health System	0.022%	6.024%	
Proportionate share of net OPEB (asset) liability	$ (470)	$ (188,680)	$ (189,150)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2022:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 88	$ 27,721	$ 27,809
Changes in assumptions	790	65,992	66,782
Changes in proportion of university contributions	11	1,267	1,278
Employer contributions subsequent to the measurement date	405	70,305	70,710
Total	**$ 1,294**	**$ 165,285**	**$ 166,579**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 18	$ 14,689	$ 14,707
Net difference between projected and actual earnings on pension plan investments	2,455	618,452	620,907
Changes in proportion of university contributions	$ -	$ 39	39
Total	**$ 2,473**	**$ 633,180**	**$ 635,653**

Deferred outflows of resources and deferred inflows of resources for OPEB were related to the following sources as of June 30, 2022:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 17	$ -	$ 17
Changes in assumptions	30	-	30
Changes in proportion of university contributions	-	547	547
Total	**$ 47**	**$ 547**	**$ 594**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 86	$ 28,453	$ 28,539
Changes in assumptions	280	75,937	76,217
Net difference between projected and actual earnings on OPEB plan investments	131	89,738	89,869
Total	**$ 497**	**$ 194,128**	**$ 194,625**

(in thousands)

Amounts reported as deferred outflows of resources related to pensions resulting from Health System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as 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
2023	(394)	(84,493)	(84,887)
2024	(340)	(209,849)	(210,189)
2025	(367)	(145,394)	(145,761)
2026	(483)	(98,699)	(99,182)
2027	-	(35)	(35)
2028 and Thereafter	-	270	270
Total	**$ (1,584)**	**$ (538,200)**	**$ (539,784)**

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
2023	(125)	(119,849)	(119,974)
2024	(123)	(41,204)	(41,327)
2025	(121)	(19,610)	(19,731)
2026	(58)	(12,918)	(12,976)
2027	(22)	-	(22)
2028 and Thereafter	(1)	-	(1)
Total	**$ (450)**	**$ (193,581)**	**$ (194,031)**

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 for the year ended June 30, 2022 (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
Benefit Formula	**Pensions** - The annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. 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	**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

(in thousands)

	STRS-Ohio	OPERS
	qualifying service credit and age 60, or 30 years of service credit at any age. **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 partial reimbursement of the monthly Medicare Part B premiums. 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 $254.0 million or 58% of the total health care costs in fiscal 2021 (excluding deductibles, coinsurance and copayments). Medicare Part D is a federal program to help cover the costs of prescription drugs for Medicare beneficiaries. This program allows STRS Ohio to recover part of the cost for providing prescription coverage since all eligible STRS Ohio health care plans include creditable prescription drug coverage. For the year ended June 30, 2021, STRS Ohio received $96.5 million in Medicare Part D reimbursements.	35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment. **OPEB** – The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees included hospitalization, medical expenses and prescription drugs through December 31, 2021. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempted to control costs by using managed care, case management, and other programs. Effective January 1, 2022, eligible non-Medicare retirees are part of a Connector program, similar to Medicare-enrolled retirees. Additional details on health care coverage can be found in the Plan Statement in the annual report. OPERS no longer participates in the Medicare Part D program as of December 31,2016.

(in thousands)

	STRS-Ohio	OPERS
Cost-of-Living Adjustments (COLAs)	Effective July 1, 2017, the COLA was reduced to 0%.	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, current law provides for an annual COLA. The COLA is calculated on the member's base pension benefit at the date of retirement and is not compounded. Members retiring under the Combined Plan receive a COLA on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.
Contribution Rates	Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll. Under Ohio law, funds to pay health care costs may be deducted from employer contributions. For the year ended June 30, 2021, 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, 2021	December 31, 2021 (OPEB is rolled forward from December 31, 2020 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** June 30, 2021 for pensions and OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.00% **Inflation:** 2.50% **Projected Salary Increases:** 12.50% at age 20 to 2.50% at age 65 **Cost-of-Living Adjustments:** 0% effective July 1, 2017 **Payroll Increases:** 3.00% **Health Care Cost Trends:** 5.00% to 29.98% initial; 4% ultimate	**Valuation Date:** December 31, 2021 for pensions; December 31, 2020 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 6.9% for pensions; 6.0% for OPEB **Inflation:** 2.75% **Projected Salary Increases:** 2.75% - 10.75% **Cost-of-Living Adjustments:** Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2022, then 2.05% Simple **Health Care Cost Trends:** 5.50% initial; 3.50% ultimate in 2034
Mortality Rates	Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates	Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td></td><td>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.</td><td>170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.</td></tr>
<tr><td>Date of Last Experience Study</td><td>June 30, 2016</td><td>December 31, 2020</td></tr>
<tr><td>Investment Return Assumptions</td><td>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:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Domestic Equity</td><td>28.0%</td><td>7.35%</td></tr>
<tr><td>International Equity</td><td>23.0%</td><td>7.55%</td></tr>
<tr><td>Alternatives</td><td>17.0%</td><td>7.09%</td></tr>
<tr><td>Fixed Income</td><td>21.0%</td><td>3.00%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>6.00%</td></tr>
<tr><td>Liquidity Reserves</td><td>1.0%</td><td>2.25%</td></tr>
<tr><td>Total</td><td>100%</td><td></td></tr>
</table>
* Returns presented as geometric means</td><td>The long term expected rates of return on defined benefit pension and health care investment assets were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2021 and the long-term expected real rates of return:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>24.0%</td><td>1.03%</td></tr>
<tr><td>Domestic Equities</td><td>21.0%</td><td>3.78%</td></tr>
<tr><td>Real Estate</td><td>11.0%</td><td>3.66%</td></tr>
<tr><td>Private Equity</td><td>12.0%</td><td>7.43%</td></tr>
<tr><td>International Equities</td><td>23.0%</td><td>4.88%</td></tr>
<tr><td>Risk Parity</td><td>5.0%</td><td>2.92%</td></tr>
<tr><td>Other Investments</td><td>4.0%</td><td>2.85%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as geometric means</td></tr>
</table>

(in thousands)

	STRS-Ohio	OPERS
		The following table displays the Board-approved asset allocation policy for health care assets for 2021 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	34.0%	0.91%
Domestic Equities	25.0%	3.78%
REITs	7.0%	3.71%
International Equities	25.0%	4.88%
Risk Parity	2.0%	2.92%
Other Investments	7.0%	1.93%
Total	100.0%	

* Returns presented as geometric means

(in thousands)

	STRS-Ohio	OPERS
Discount Rate	**Pensions** -- The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021. 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, 2021. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021. **OPEB** -- The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2021. 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 7.00% was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2021.	**Pensions** -- The discount rate used to measure the total pension liability was 6.9% 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. **OPEB** – A single discount rate of 6.00% was used to measure the OPEB liability on the measurement date of December 31, 2021. 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 1.84%. 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 2121. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2121, the duration of the projection period through which projected health care payments are fully funded.

(in thousands)

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td>Changes in Assumptions Since the Prior Measurement Date</td><td>Pensions – The discount rate was adjusted to 7.00% from 7.45% for the June 30, 2021 valuation.

OPEB -- The discount rate was adjusted to 7.00% from 7.45% for the June 30, 2021 valuation.</td><td>Pensions – The discount rate was adjusted to 6.90% from 7.20% for the December 31, 2021 valuation.

OPEB – There were no changes in assumptions since the prior measurement date of December 31, 2019.</td></tr>
<tr><td>Benefit Term Changes Since the Prior Measurement Date</td><td>Pensions – There were no changes in benefit terms since the prior measurement date of June 30, 2020.

OPEB -- The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055% to 2.100%. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022. The Medicare Part D subsidy was updated to reflect it is expected to be negative in CY2022. The Part B monthly reimbursement elimination date was postponed indefinitely.</td><td>Pensions – There were no changes in benefit terms since the prior measurement date of December 31, 2020.

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.</td></tr>
<tr><td>Sensitivity of Net Pension Liability to Changes in Discount Rate</td><td><table><tr><th>1% Decrease (6.00%)</th><th>Current Rate (7.00%)</th><th>1% Increase (8.00%)</th></tr><tr><td>$ 5,334</td><td>$ 2,848</td><td>$ 748</td></tr></table></td><td><table><tr><th>1% Decrease (5.90%)</th><th>Current Rate (6.90%)</th><th>1% Increase (7.90%)</th></tr><tr><td>$ 1,318,024</td><td>$ 482,734</td><td>$ (212,012)</td></tr></table></td></tr>
<tr><td>Sensitivity of Net OPEB Liability (Asset) to Changes in Discount Rate</td><td><table><tr><th>1% Decrease (6.00%)</th><th>Current Rate (7.00%)</th><th>1% Increase (8.00%)</th></tr><tr><td>$ (396)</td><td>$ (470)</td><td>$ (531)</td></tr></table></td><td><table><tr><th>1% Decrease (5.00%)</th><th>Current Rate (6.00%)</th><th>1% Increase (7.00%)</th></tr><tr><td>$ (110,967)</td><td>$ (188,680)</td><td>$ (253,200)</td></tr></table></td></tr>
<tr><td>Sensitivity of Net OPEB Liability (Asset) to Changes in Medical Trend Rate</td><td><table><tr><th>1% Decrease in Trend Rate</th><th>Current Trend Rate</th><th>1% Increase in Trend Rate</th></tr><tr><td>$ (528)</td><td>$ (470)</td><td>$ (397)</td></tr></table></td><td><table><tr><th>1% Decrease in Trend Rate</th><th>Current Trend Rate</th><th>1% Increase in Trend Rate</th></tr><tr><td>$ (190,728)</td><td>$ (188,680)</td><td>$ (186,270)</td></tr></table></td></tr>
</table>

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

For the years ended June 30, 2023 and 2022, the Health System recognized pension and OPEB expense/(benefit) of $217,343 and $(189,012) respectively.

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

(in thousands)

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 a 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 – OTHER NON-CURRENT LIABILITIES.

NOTE 11 – OTHER NON-CURRENT LIABILITIES

Other non-current liability activity for the years ending June 30, 2023 and 2022 is summarized as follows:

	2023				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	$ 77,417	$ 9,763	$ 12,811	$ 74,369	$ 6,037
Third party payor settlements	87,306	734	13,343	74,697	3,344
Unearned revenue	18,564	25,441	6,564	37,441	-
Other liabilities	2,621	3,802	-	6,423	-
	185,908	39,740	32,718	192,930	9,381

	2022				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	$ 83,738	$ 3,447	$ 9,768	$ 77,417	$ 7,227
Third party payor settlements	90,402	14,086	17,182	87,306	21,952
Unearned revenue	29,522	25,338	36,296	18,564	-
Other liabilities	2,621	-	-	2,621	476
	206,283	42,871	63,246	185,908	29,655

(in thousands)

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, 2023 and 2022 is summarized as follows:

	Fiscal Year June 30,	
Payor - Receivables	**2023**	**2022**
Managed Care	59%	60%
Medicare	25%	24%
Medicaid	15%	15%
Self Pay	1%	1%
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 $60,858 and $53,991 for the years ended June 30, 2023, and June 30, 2022, respectively. The Health System provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. The Health System collected $116,100 for healthcare services as of June 30, 2023, and $106,977 in 2022. This is reflected in Net patient service revenue.

Since fiscal year 2017, the Health System has transferred a total of $436,697 to the University, for investment in the University's Long-Term Investment Pool. The Health System records Interest Income related to the investment on a monthly basis. The Long-Term Investment Pool – Cost Value increased $116,993 in 2023 as a result of the Health System transferring additional operating cash and 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 $4,850 for fiscal year 2023 and $4,528 for fiscal year 2022. Health System amounts due from OSUP totaled $38,766 for fiscal year 2023 and $4,647 for fiscal year 2022.

In July 2022 the faculty practices operated by the Health System moved to OSUP. The Health System practices included Anesthesiology, Maternal Fetal Medicine, Neurosurgery, Orthopedics, Sports Medicine, Family and Community Medicine. In accordance with GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, the impact of the physician integration was a reduction to the Health System Operating Revenues of $224.5 million and Operating Expenses $254.0 million. Employees supporting these practices remained as employees of the Health System and are leased to OSUP. OSUP paid the Health System $75.5 million for leased employees related to HP3. The Health System recorded this in Other Revenue.

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 $229,502 for fiscal year 2023 and $190,419 for fiscal year 2022 and are reflected as Non-Operating (Expenses) Revenues.

Oval

The University has a pure captive insurer (Oval Limited) that provides excess coverage over both Fund I and Fund II. Oval Limited assets and liabilities are included in the University's financial statements but are not included in the Health System financial statements, as a result of the retained risk being held by the University. Annual contributions from the Health System are recorded as period expense. There were no contributions to Oval in fiscal year 2023 and 2022. 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 an equity method investment. The investment reflects the Health System's equity interest of $6,982 for fiscal year 2023 and $6,629 for fiscal year 2022.

OSU Mount Carmel Health Alliance

The Health System has a joint venture with Mount Carmel with partial ownership in Madison County Hospital which is recorded as an equity method investment. The investment reflects the Health System's equity interest of $13,209 for fiscal year 2023 and $11,809 for fiscal year 2022.

NOTE 14 – CAPITAL PROJECT COMMITMENTS

At June 30, 2023, the Health System is committed to future contractual obligations for capital expenditures of approximately $855,478 from internal and other sources.

NOTE 15 – 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 16 - 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, 2023 could differ from actual settlements based upon results of the cost report audits discussed in NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUTING POLICIES. Changes in Medicare and Medicaid programs and the reduction of funding levels could have a material adverse impact on the Health System.

NOTE 17 - SUBSEQUENT EVENTS

The Health System evaluated subsequent events through November 14, 2023, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements.

Internal Bank Loan for Inpatient Hospital:

The University has issued and allocated $300,000 of bonds to the Health System for construction of the new Inpatient Hospital tower. The funding was available on September 30, 2023 with a loan period of 30 years. The loan will be paid back in monthly principal and interest payments of $1,499 with an interest rate of 3.84%.

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

(dollars in thousands)	2015	2016	2017	2018	2019	2020	2021	2022	2023
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%	0.022%	0.029%
Health System proportionate share of the net pension liability	$ 5,783	$ 6,382	$ 5,450	$ 3,453	$ 2,627	$ 2,933	$ 3,912	$ 2,848	$ 6,347
Health System covered payroll	$ 2,061	$ 2,001	$ 1,417	$ 1,316	$ 1,118	$ 1,275	$ 1,585	$ 2,198	$ 2,836
Health System proportionate share of the net pension liability as a percentage of its covered payroll	281%	319%	385%	262%	235%	230%	247%	130%	224%
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%	87.8%	78.9%
OPERS:									
Health System proportion of the collective net pension liability	4.564%	4.765%	4.876%	5.082%	5.252%	5.577%	5.731%	5.824%	5.933%
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	$ 482,734	$ 1,738,042
Health System covered payroll	$ 616,496	$ 654,922	$ 694,019	$ 744,740	$ 809,493	$ 853,211	$ 943,464	$ 939,396	$ 1,004,583
Health System proportionate share of the net pension liability as a percentage of its covered payroll	89%	126%	159%	106%	177%	128%	88%	51%	173%
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%	93.0%	76.1%

Schedule of Health System Contributions

(dollars in thousands)	2015	2016	2017	2018	2019	2020	2021	2022	2023
STRS-Ohio:									
Contractually required contribution	$ 310	$ 221	$ 202	$ 172	$ 195	$ 243	$ 342	$ 442	$ 348
Contributions in relation to the contractually required contribution	$ 310	$ 221	$ 202	$ 172	$ 195	$ 243	$ 342	$ 442	$ 348
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Health System covered payroll	$ 2,001	$ 1,417	$ 1,316	$ 1,118	$ 1,275	$ 1,585	$ 2,198	$ 2,836	$ 2,346
Contributions as a percentage of covered payroll	15.5%	15.6%	15.3%	15.4%	15.3%	15.3%	15.6%	15.6%	14.8%
OPERS:									
Contractually required contribution	$ 88,834	$ 94,862	$ 101,364	$ 108,538	$ 119,588	$ 126,617	$ 134,543	$ 137,067	$ 148,133
Contributions in relation to the contractually required contribution	$ 88,834	$ 94,862	$ 101,364	$ 108,538	$ 119,588	$ 126,617	$ 134,543	$ 137,067	$ 148,133
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Health System covered payroll	$ 630,751	$ 673,340	$ 719,422	$ 770,257	$ 836,963	$ 886,194	$ 942,337	$ 959,511	$ 1,036,774
Contributions as a percentage of covered payroll	14.1%	14.1%	14.1%	14.1%	14.3%	14.3%	14.3%	14.3%	14.3%

GASB 75

Required Supplementary Information:

Schedule of Proportionate Share of the Net OPEB (Asset) Liability

(dollars in thousands)	2018	2019	2020	2021	2022	2023
STRS-Ohio:						
Health System proportion of the collective net OPEB (asset) liability	0.015%	0.012%	0.013%	0.016%	0.022%	0.029%
Health System proportionate share of the net OPEB (asset) liability	$ 567	$ (192)	$ (220)	$ (284)	$ (470)	$ (739)
Health System covered payroll	$ 1,316	$ 1,118	$ 1,275	$ 1,275	$ 2,198	$ 2,836
Health System proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	43%	-17%	-17%	-22%	-21%	-26%
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	47.1%	176.0%	174.7%	182.1%	174.7%	230.7%
OPERS:						
Health System proportion of the collective net OPEB (asset) liability	5.234%	5.385%	5.715%	5.888%	6.024%	6.040%
Health System proportionate share of the net OPEB (asset) liability	$ 568,346	$ 702,036	$ 789,364	$ (104,901)	$ (188,680)	$ 38,085
Health System covered payroll	$ 744,740	$ 809,493	$ 853,211	$ 943,464	$ 939,396	$ 1,004,583
Health System proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	76%	87%	93%	-11%	-20%	4%
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	54.1%	46.3%	47.8%	115.6%	128.2%	94.8%

STRS-Ohio – Pensions:

Changes of benefit terms. Amounts reported in 2023 reflect plan amendments to provide a one-time 3% COLA for fiscal year 2023 and to eliminate age 60 requirement for unreduced retirement effective August 1, 2026. Amounts reported in 2019 reflect a reduction in the COLA rate to 0%, effective July 1, 2017.

Changes of assumptions. Amounts reported in 2023 reflect updates to demographic assumptions related to mortality, retirement, turnover, pension payment form election and salary increases, based on the actuarial experience study for the period from July 1, 2015 through June 30, 2021. Amounts reported in 2022 reflect an adjustment of the discount rate from 7.45% to 7.00%. Amounts reported in 2018 also reflect an adjustment of mortality assumptions based on the use of the RF-2014 Annuitant Mortality Table rather than the RP-2000 Combined Mortality Table. Amounts reported in 2017 reflect an adjustment of the discount rate from 7.75% to 7.45%.

OPERS – Pensions:

Changes of assumptions. Amounts reported in 2022 reflect an adjustment of the discount rate from 7.20% to 6.90%. Amounts reported in 2019 reflect an adjustment of the discount rate from 7.50% to 7.20%. Amounts reported in 2017 reflect an adjustment of the discount rate from 8.00% to 7.50%. Amounts reported in 2017 also reflect an updated healthy and disabled mortality assumptions, based on the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

STRS-Ohio – OPEB:

Changes of benefit terms. Amounts reported in 2023 reflect health care program changes for the 2023 plan year to increase subsidy level for health care premiums, modify Medicare Part B reimbursements and adjust certain co-pays and out-of-pocket limits. Amounts reported in 2020 reflect postponement of the Medicare Part B monthly reimbursement elimination date to January 1, 2021. Amounts reported in 2019 reflect adoption of a new premium subsidy plan for 2019 and future years that is intended to extent the fund's solvency to 2047. Amounts reported in 2019 also reflect postponement of the Medicare Part B monthly reimbursement elimination date to January 1, 2020. Amounts reported in 2018 reflect discontinuation of Medicare Part B premium reimbursements for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements, beginning January 2019.

Changes of assumptions. Amounts reported in 2023 reflect updates to demographic assumptions related to mortality, retirement, turnover, pension payment form election, OPEB participation and salary increases, based on the actuarial experience study for the period from July 1, 2015 through June 30, 2021. Amounts reported in 2022 reflect an adjustment of the discount rate from 7.45% to 7.00%. Amounts reported in 2019 reflect an adjustment of the discount rate from 4.13% to 7.45%. Amounts reported in 2018 reflect an adjustment of the discount rate from 3.26% to 4.13%. Amounts reported in 2018 also reflect an adjustment of mortality assumptions based on the use of the RF-2014 Annuitant Mortality Table rather than the RP-2000 Combined Mortality Table.

OPERS – OPEB:

Changes of benefit terms. Amounts reported in 2021 reflect 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, which were approved by the OPERS Board on January 15, 2020, 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.

Changes of assumptions. Amounts reported in 2023 reflect an adjustment of the discount rate from 6.00% to 5.22%. Amounts reported in 2021 reflect an adjustment of the discount rate from 3.16% to 6.00%. Amounts reported in 2020 reflect an adjustment of the discount rate from 3.96% to 3.16%. Amounts reported in 2019 reflect an adjustment of the discount rate from 3.85% to 3.96%.

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' 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*

The Board of Trustees of The Ohio State University:

We have audited, in accordance with the 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 Health System's statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2023, 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.

Report on 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 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 or significant deficiencies may exist that were not identified.

Report on 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 Health System'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.

KPMG LLP

Columbus, Ohio
November 14, 2023

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 12/19/2023

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370