The Ohio State University
Board of Trustees

November 16, 2018

THURSDAY, NOVEMBER 15, 2018
AUDIT AND COMPLIANCE COMMITTEE MEETING

John W. Zeiger
Timothy P. Smucker
Brent R. Porteus
Hiroyuki Fujita
Janice M. Bonsu
James D. Klingbeil
Amy Chronis
Craig S. Morford
Michael J. Gasser (*ex officio*)

Location: Longaberger Alumni House
Sanders Grand Lounge

Time: 10:00-11:30am

ITEMS FOR DISCUSSION

1. *Strauss Investigation Update – Dr. Drake, Dr. McPheron* 10:00-10:10am
2. *FY18 Financial Statements Audit Summary – Mr. Papadakis, Ms. Devine* 10:10-10:20am
3. *External Audit Update – Ms. Dewire* 10:20-10:35am
4. *Enterprise Project Update – Dr. McPheron, Ms. Basso, Mr. Papadakis* 10:35-10:50am

ITEMS FOR ACTION

5. Approval to Submit Audited Consolidated Financial Statements (Draft) to the Auditor of State – Mr. Papadakis, Ms. Devine 10:50-10:55am

Written Reports (Background Only) – Public

a. *Compliance and Integrity Program Report*
b. *Audit & Compliance Committee Scorecard*

Executive Session 10:55-11:30am

The Ohio State University

FY2018 Financial Statement Audit Summary

Audit and Compliance Committee

November 15, 2018

THE OHIO STATE UNIVERSITY

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Status overview

- The university seeks an independent audit annually
  - The consolidated university audit is best practice and is required per state law.
  - Audits of other units are sought by the university as part of financial oversight and best practices
- An audit for the consolidated financial statements for the fiscal year ended June 30, 2018 has been conducted by our independent auditor in consultation with university management. The result was an unqualified opinion.

Action sought by board of trustees

- Approval to submit draft consolidated financial statements to the Auditor of State.
- Audit will not be final until it is approved by Auditor of State.

University Audits, Reviews and Agreed Upon Procedures

Consolidated Financial Statements (GASB)

- Primary Institution
  - University, including OSU Wexner Medical Center Health System
  - Blended Component Units
  - Discretely Presented Component Units

Stand-alone Financial Statements

- Oval Limited
- ❖ OSU Foundation
- ❖ OSU Wexner Medical Center Health System
- ❖ Transportation Research Center
- ❖ Campus Partners
- ❖ OSU Physicians, Inc.
- ❖ Department of Athletics
- WOSU Public Media
- ❖ OSU Global Gateways (FYE 12/31/17)

Agreed Upon Procedures

- National Collegiate Athletics Association

Other Reports

- Uniform Guidance (formerly A-133 Compliance)
- Wexner Center for the Arts – Review Report
- ❖ OSU Health Plan – Review Report
- Transportation Research Center Benefit Plan

Legend
- Required by external party
- ❖ Oversight/Best Practice

Management Certifications

Consolidated Financial Statements	• University management signs a consolidated representation letter
Stand-Alone Financial Statements	• Management of each stand-alone reporting entity is responsible for and signs its own representation letter
College/Admin Units	• Deans, VPs and Senior Fiscal Officers sub-certify internal controls in 16 key areas • All completed. No significant control issues noted

Audit Opinion

- The university received an **unqualified opinion**, with no material weaknesses. The audit opinion also includes an emphasis of matter paragraph to address the implementation of two new GASB standards in FY2018:

  - On July 1, 2017, the university implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of the new standard – which requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded other postemployment benefit (OPEB) liabilities – resulted in a $1.22 billion reduction in the university's opening unrestricted net position. The net OPEB liability recognized by the university at June 30, 2018 was $1.25 billion.

  - On July 1, 2017, the university also implemented GASB 81, *Irrevocable Split Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). The cumulative effect of adopting GASB Statement No. 81 was a $12 million reduction in the university's net position as of July 1, 2017.

Change in Financial Statement Presentation

- In 2018, the university implemented a change in presentation for investment expenses. These expenses, which totaled $64 million for the year ended June 30, 2018 and had previously been reported as Institutional Support expense, are now being netted against investment income. University management determined that the use of this acceptable alternative accounting presentation is preferable, because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns. Similar reclassifications were made to FY2017 and (for MD&A) FY2016 for comparability.

Significant Transactions

- In April 2017, the university entered into a 50-year agreement to lease the university's utility system to Ohio State Energy Partners (OSEP) and grant it the exclusive right to operate the utility system and provide utility services to the Columbus campus. The university received an upfront payment of $1.09 billion from OSEP on July 6, 2017. The upfront payment is reported on the Statement of Net Position as an Advance from Concessionaire (non-current liability) and is being amortized to operating expense over the 50-year term of the agreement.

Financial Highlights: Statement of Net Position

Primary Institution	2018	2017
	(in thousands)	
Current Assets	$ 3,868,886	$ 2,987,998
Noncurrent Assets	11,095,277	10,054,786
Deferred Outflows	737,903	1,012,937
Total Assets and Deferred Outflows	**$ 15,702,066**	**$ 14,055,721**
Current Liabilities	1,599,374	1,488,326
Noncurrent Liabilities	7,792,233	6,571,561
Deferred Inflows	972,224	484,007
Total Liabilities and Deferred Inflows	**$ 10,363,831**	**$ 8,543,894**
Net Position (Equity):		
Nonexpendable	3,928,073	3,732,281
Expendable	1,410,162	1,779,546
Total Net Position	**$ 5,338,235**	**$ 5,511,827**

Total cash and temporary investments increased $793 million, to $3.02 billion, primarily due to strong healthcare operating cash flows and upfront proceeds of energy agreement designated for capital projects.

Increase in noncurrent assets reflects $958 million increase in Long Term Investment Pool (primarily due to investment of $820 million of upfront energy proceeds) and a $160 million increase in capital assets.

Increase primarily reflects $1.06 billion unamortized portion of upfront payment for energy agreement. Recognition of $1.23 billion of OPERS and STRS-Ohio net OPEB liabilities was offset by $1.02 billion decrease in net pension liabilities.

Deferred outflows related to pensions decreased $360 million and deferred inflows for pensions increased $395 million primarily due to deferrals for higher-than projected investment returns for OPERS and STRS-Ohio.

Overall decrease in total net position relates to $1.22 billion reduction in the FY2018 beginning net position related to adoption of GASB 75, offset by a $1.05 billion increase in net position in 2018.

Financial Highlights: Statement of Revenue, Expenses, & Other Changes in Position

Primary Institution	2018	2017
	(in thousands)	
Operating Revenues	$ 5,251,146	$ 4,971,443
Operating Expenses	5,435,605	5,715,576
Operating Loss	**(184,459)**	**(744,133)**
Non-Operating Revenues (Expenses)	1,075,342	1,158,961
Income before Other Revenues, Expenses, Gains or Losses	**890,883**	**414,828**
Other Changes in Net Position	160,395	155,209
Increase in Net Position	**$ 1,051,278**	**$ 570,037**

Consolidated Health System revenues increased $251 million, to $3.10 billion, reflecting continued growth in patient volumes. Auxiliary revenues were up $19 million, primarily due to increases in Big Ten television rights fees paid to Athletics.

Total operating expenses decreased $280 million primarily due to pension and OPEB expense accruals, which swung from a positive $349 million in 2017 to a negative $241 million in 2018. The swing in pension and OPEB expense was partially offset by budgeted increases in Health System expenses to support growth in patient volume and budgeted increases in Educational & General expense.

Decrease is primarily due to $104 million decrease in net investment income. FY2018 return for the Long Term Investment Pool was +7.7%, compared to +14.5% in FY2017.

Financial Highlights: Statement of Cash Flows

University Cash Flows Summary - Primary Institution (in thousands)

	2018	2017
Net cash flows from (used in) operating activities	$ 1,053,673	$ (45,720)
Net cash flows from noncapital financing activities	764,223	787,986
Capital appropriations and gifts for capital projects	94,627	82,982
Proceeds from capital debt	73,885	6,430
Payments for purchase or construction of capital assets	(497,962)	(414,606)
Principal and interest payments on capital debt and leases, net of federal Build America Bond interest subsidies	(256,514)	(192,914)
Net cash flows used in investing activities	(505,508)	(238,980)
Net increase (decrease) in cash	$ 726,424	$ (14,822)

Excluding receipt of the upfront payment for the energy agreement, net cash flows from operating and noncapital financing activities were relatively stable, decreasing $14 million.

In 2018, the university issued $70 million of Series 2017 bonds to refund $80 million of Series 2008A bonds, resulting in an economic gain of $11 million.

Total cash used by investing activities was $505 million, primarily reflecting investment of energy proceeds.

Reflects receipt of $1.09 billion upfront payment for energy agreement in 2018. Negative operating cashflow in 2017 is primarily due to non-operating classification of state share of instruction and line-item appropriations. If included in operating, net cash flows from operating activities would be $1.53 billion and $427 million in 2018 and 2017, respectively.

Summary of Significant Estimates

Financial Statement Line Item	June 30, 2018 (in 000's)	June 30, 2017 (in 000's)	How Determined	Any Changes?
Real assets, hedge funds and private equity	$2,917,030	$2,755,726	Primarily based on NAV provided by external investment managers/partners. Additional procedures include comparisons to capital statements, rollforward of investment activity, and analytical comparisons.	No changes in estimation methodology.
Medical malpractice liability	$70,328	$73,523	Independent actuarial valuation at June 30, 2018. Management has historically applied an additional cost factor to the actuary's estimate to bring the funding requirement to a 75% confidence level (consistent with prior year). This is to address the volatility associated with such liabilities.	No changes in estimation methodology.
Pension and OPEB Liabilities:				
Net pension and OPEB liabilities	$3,797,530	$3,565,362	Represents the university's share (STRS 4.6% and OPERS 9.4%) of the net pension and OPEB liabilities and is based on allocation schedules provided by the retirement systems. Deferrals primarily include differences between projected and actual investment returns and employer contributions subsequent to the measurement date.	STRS changed several actuarial assumptions: • Long term rate of return was reduced from 7.75% to 7.45% • Inflation assumption was lowered from 2.75% to 2.50% • Payroll growth assumption was lowered to 3.00% • Total salary increases rate was changed from 2.75%-12.25% to 2.5%-12.5%. There were no changes in the OPERS assumptions.
Deferred outflows – pensions and OPEB	$719,510	$991,559		
Deferred inflows – pensions and OPEB	$(512,268)	$(16,342)		
Increase (decrease) in expense due to pension and OPEB accruals	$(241,453)	$348,860		

Summary of Significant Estimates (continued)

Financial Statement Line Item	June 30, 2018 (in 000's)	June 30, 2017 (in 000's)	How Determined	Any Changes?
OSU Health System:				
Net patient service A/R	$403,637	$375,530	Management's estimates for contractual and bad debts allowances are based on cash collections and adjustments compared to revenue over a rolling twelve month period disaggregated by major payor class (in the case of the Health System) and over a six month period disaggregated by major payor class (in the case of OSUP). Management also performs a look-back analysis of contractual and bad debt allowances established at the end of the prior fiscal year.	No significant changes in estimation methodology.
Net patient service revenue	$2,877,882	$2,660,647		
OSU Physicians:				
Net patient service A/R	$39,569	$34,874		
Net patient service revenue	$368,074	$353,491		

New Accounting Standards

New GASB Standards	Effective Date	Impact
GASB 83, *Certain Asset Retirement Obligations*	FY2019	Will require recognition of liabilities to retire certain assets that cause contamination in normal course of their use (preliminary estimate of ARO liability is approx. $20 million)
GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*	FY2019	Will require separate disclosures of direct borrowings, including long-term payables to OSEP related to capital expenditures under the energy agreement.
GASB 84, *Fiduciary Activities*	FY2020	May require the university to present Alumni Association endowment investments and possibly Agency funds in separate fiduciary fund financials.
GASB 87, *Leases*	FY2021	Expected to require the university to put all of its operating leases on the balance sheet (estimated additional liabilities of approx. $140 million).
GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*	FY2021	Interest costs during the construction period will no longer be capitalized.

Date: October 22, 2018

To: The Ohio State University Audit & Compliance Committee

From: Christa Dewire, Audit Partner

Subject: External Audit - FY18 Audit Results

Purpose

To report to the Committee on the status and results of the external audit of the University's financial statements as of and for the fiscal year ended June 30, 2018, as well as share certain Committee-level communications required by professional auditing standards.

Committee Action

No action needed.

Executive Summary

Our report to the Committee highlights the status and results of our external audit, and includes specific communications that professional auditing standards require we bring to the Committee's attention.

- We will have substantively completed our audit procedures by November 15, 2018, and expect to issue unqualified opinions on the financial statements of the primary institution and aggregate discretely presented component units, which collectively comprise The Ohio State University.
- There were no significant changes to our planned audit strategy or determination of significant risks; nor were there significant findings or exceptions as a result of audit procedures performed with respect to significant risk areas.
- There were two new accounting standards effective in the current year related to accounting for other postemployment benefit liabilities and revenue associated with irrevocable split-interest agreements. In addition, the University changed its presentation of certain investment expenses within the statement of revenues, expenses and other changes in net position. The impact of each is disclosed in the footnotes to the financial statements.
- There have been no significant changes in the processes management uses to estimate critical and other accounting estimates, nor were there significant changes in the audit procedures performed in this regard.
- For purposes of the audit, we viewed the University's comprehensive energy management agreement to be a significant unusual transaction given the size and complexity of the agreement. We performed a formal consultation with respect to the appropriateness of the accounting for certain significant elements of the agreement and agree with management's accounting for this transaction.
- We agree with management's conclusions surrounding the quantitative and qualitative immateriality of uncorrected misstatements identified in excess of established deminimis thresholds, with respect to both the current and prior year financial statements.
- Other matters we are required to bring to the Committee's attention are included within our materials.

Report to the Audit and Compliance Committee FY18 audit results

The Ohio State University

November 15, 2018

pwc

October 22, 2018

Dear Members of the Committee:

Our relationship with The Ohio State University (the "University") is an extremely important one to our firm. We have a strong appreciation for the responsibility of management and the Audit and Compliance Committee ("Committee") members, and understand the importance of the Committee's role to the Board of Trustees and stakeholders. We also recognize that the Committee and management place importance on the role that we play as independent auditors. We are committed to providing the highest level of quality service to the University and we accept and affirm our responsibility to the Committee and to the organization. We fulfill this responsibility by performing our audit in accordance with governing professional standards in an independent and professional manner.

Included within our report are the following:

- Executive Summary
- Audit Results, including status of our audit, audit risks and results and other required communications
- Trending topics

We appreciate the courtesy and cooperation extended to us by the employees of the University throughout the performance of our engagement, and we look forward to meeting with you in November to present this report, address your questions and discuss any other matters of interest to the Committee. Please feel free to contact Christa Dewire, Engagement Partner, at (614) 629-5344 with any questions you may have.

Very truly yours,

Christa L. Dewire

Christa L. Dewire
Engagement partner

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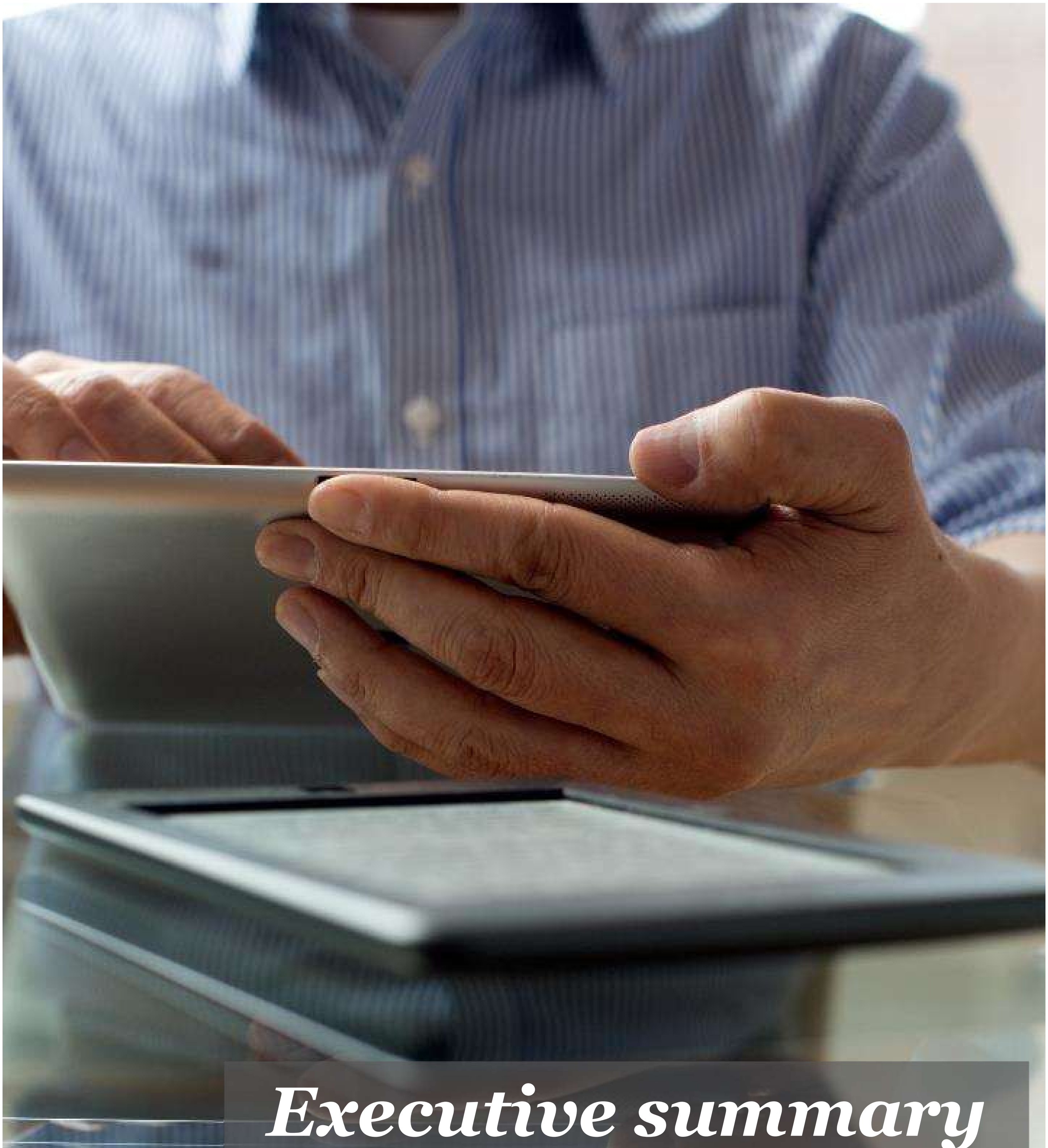
Appendices

Appendix I – Draft audit reports

Appendix II – Draft management representation letter

Appendix III – Status of other PwC deliverables



Executive summary

Executive summary

Status of our audit as of October 22, 2018

We are on track to sign the University financial statement opinions following Committee approval and wrap-up of the following key items:

- Subsequent events and other completion procedures; and
- Receipt of management's signed representation letters

Drafts of our audit reports are included within Appendix I. Our opinions are unqualified, with an emphasis of matter paragraph to address the implementation of certain new GASB standards this year. See Appendix III for an update as to the status of other PwC deliverables.

To the extent there are significant updates to these communications subsequent to submission to the Committee, but prior to our report release date, we will update the Committee verbally during the November meeting.

Significant changes to our audit plan

There have been no significant changes to our planned audit strategy.

Significant risks

There were no significant findings or exceptions in significant risk areas.

Key events and transactions affecting the year

Significant unusual transactions are those that are both significant and outside the normal course of business for the University or that otherwise appear to be unusual due to their timing, size, or nature. We identified one such transaction during the current year.

In late fiscal 2017, the University entered into a 50-year comprehensive energy management agreement with Ohio State Energy Partners (OSEP) and received a $1.09 billion upfront payment upon settlement in early fiscal 2018. Under the agreement, OSEP operates, maintains, and makes capital investments in the utility system and charges the University a utility fee, which includes fixed, variable, and operating and maintenance (O&M) components. For purposes of our audit, we viewed this to be a significant unusual transaction, and given the size and complexity of the agreement, we performed a formal consultation as to the appropriate accounting for the upfront payment and certain components of the utility fee. We are in agreement with management's accounting for this transaction as reflected within the University's financial statements.

Executive summary, cont'd

Significant accounting policies and practices

There were no significant changes in accounting policies or related disclosures other than as follows:

- GASB 75 related to other post-employment benefit liabilities was effective July 1, 2017. Implementation resulted in a cumulative adjustment to net position (at July 1, 2017) of negative $1.22 billion, reflecting the University's proportionate share of the STRS-Ohio and OPERS net OPEB liabilities. Prior to implementation of GASB 75, the University's OPEB liability was not material.
- The University also implemented GASB 81 related to Irrevocable Split Interest Agreements, which defers revenue until specified events occur, resulting in a cumulative adjustment to net position (at July 1, 2016) of negative $12 million. Fiscal 2017 comparatives were adjusted to reflect an additional $12 million deferral of revenue associated with the new guidance.
- Lastly, in 2018, the University changed the presentation of certain investment expenses on its statement of revenues, expenses and other changes in net position. Management reclassified $64 million of investment expenses from operating expenses to non-operating – specifically netting these expense against net investment income. Such presentation is acceptable and in line with peer practice. Prior period comparatives reflect the same reclassification.

Critical and other accounting estimates

There were no significant changes in management's processes for determining certain critical and other accounting estimates as of June 30, 2018 – including valuation of certain alternative investments, estimation of patient contractual allowances and bad debt reserves, medical malpractice liability, or pension liabilities. The audit procedures we performed were consistent with those shared with the Committee during our April 5th meeting. We did not identify any bias in management's determination or accounting for such estimates as a result of our audit procedures.

Executive summary, cont'd

Identified misstatements, recorded and unrecorded

There were no corrected misstatements, other than those that are clearly trivial, identified by PwC as a result of auditing procedures performed.

One recurring uncorrected misstatement in excess of the established deminimis threshold ($11.7 million) was identified related to the Primary Institution:

- Understatement of current year Health System revenue related to a lag in timing of positive claims adjustments ($12.7M in FY18). This is offset in large part by the impact of the same misstatement in FY17, which was recorded as an out of period adjustment in the current year (resulting in a $14.8M overstatement of FY18 revenue). The net impact on FY18 is a $2.1M overstatement of revenue.

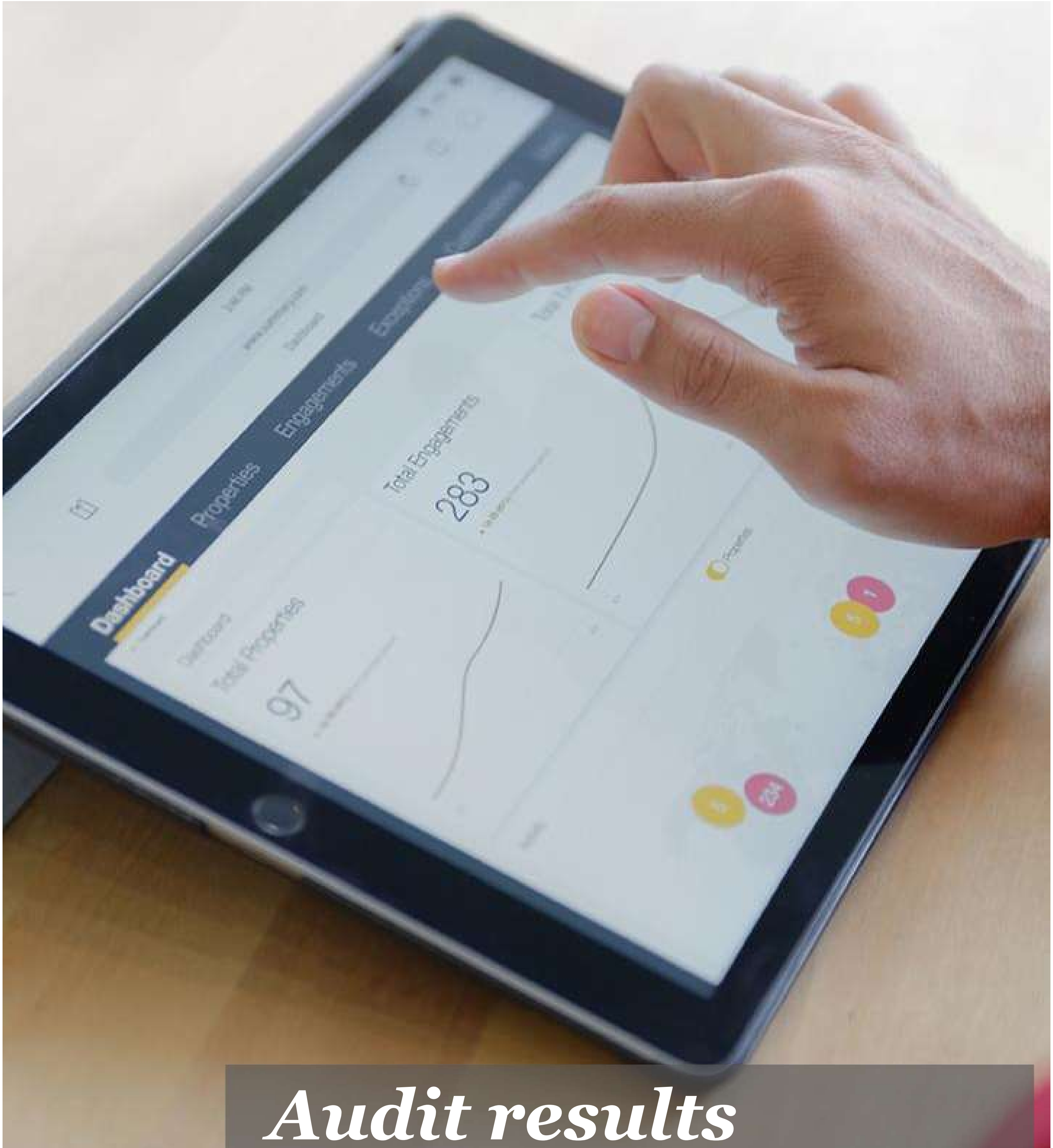
Two out of period adjustments in excess of the established deminimis threshold ($1.1 million) were identified related to the Discretely Presented Component Units:

- Understatement of Transportation Research Center FY17 revenue of $1.1 million due to adjustments identified at the stand-alone financial statement level in 2017 after issuance of the University's FY17 financial statements. The University has reflected this adjustment in the FY18 financial statements, thereby overstating FY18 revenue.
- Overstatement of Campus Partners current period expense / overstatement of opening net position related to the timing of an accrual ($1.5M of expense in FY18 that should have been reflected in FY17)

Management determined the impact of the above to be both quantitatively and qualitatively immaterial to both the current and prior year financial statements. We agree with management's conclusions.

Internal control findings

The significant deficiency identified at the University level in the prior year in relation to one of the Discretely Presented Component Units (Transportation Research Center, Inc.) was effectively remediated during the current year, primarily as a result of a compensating control implemented at the University level that reduced the likelihood and magnitude of a potential misstatement to a level below established materiality thresholds.



Audit results

Status of our audit (as of Oct 22nd)

Remaining items to complete	Significant changes to the audit plan
We are substantially complete with our audit of the University financial statements, pending final approval of the financial statements and completion of the following: • Subsequent events and other completion procedures; and • Receipt of management's signed representation letters Our Uniform Guidance testing is in progress, however the direct cost testing performed for purposes of the compliance report and leveraged for purposes of our University financial statement audit is complete. We expect to issue our unqualified report on the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise the University on November 15th. Drafts of our audit reports are included in Appendix I. The status of all other PwC deliverables is included in Appendix III. To the extent there are significant updates to these communications subsequent to submission to the Committee, but prior to our report release date, we will update the Committee verbally during the November meeting.	We presented our planned audit approach, including our preliminary risk assessment, and related scoping considerations for FY18 to the Audit and Compliance Committee on April 5, 2018. Throughout the audit, we continuously evaluated the appropriateness of our audit strategy. There were no significant changes to the planned audit approach.

Audit risks and results

Final audit plan

Significant Risks

We emphasize certain areas in our audit on a recurring basis because of their potential significant impact on your financial results. The significant risks identified for the University's audit remain consistent with those previously communicated to the Committee and include the following:

Risk		Primary Institution	Discretely Presented Component Units
⚠	**Risk of Management Override of Controls** - required significant risk for all of our audits.	✔	✔
⚠	**Risk of Fraud in Revenue Recognition in Certain Revenue Streams** – presumed significant risk for all of our audits, ultimately dependent on the nature and complexity of certain revenue streams.	✔ Patient service revenue	✔ Patient service revenue
⚠	**Risk of Material Misstatement in the Valuation of Certain Alternative Investments** – related to the valuation of certain of the University's alternative investments for which a US GAAP compliant "NAV" is not available	✔	
⚠	**Risk of Material Misstatement in the Valuation in Patient Revenue and Patient A/R** – related to the contractual allowance and allowance for doubtful accounts	✔	✔

There were no significant findings or exceptions in the significant risk areas.

Audit risks and results

Significant accounting policies and practices

The following tables summarize the University's initial adoption of, or changes to existing, significant accounting policies or practices:

Significant accounting policy or practice	Effect on financial statements or disclosures
Effective July 1, 2017, the University adopted **GASB 75**, which requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded other postemployment benefit (OPEB) liabilities.	The adoption resulted in the following: • $1.22 billion reduction in the opening unrestricted net position at July 1, 2017. • Net OPEB liability at June 30, 2018 of $1.23 billion. • Expanded footnote disclosures
Audit response	
Our procedures included: • agreeing management's calculations to the OPERS and STRS audited reports • testing the allocation of the liability to the impacted component units • testing the contributions used in the allocation • tie out and review of the financial statement disclosures	

Significant accounting policy or practice	Effect on financial statements or disclosures
Effective July 1, 2017, the University adopted **GASB 81** which requires that a government receiving resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. In addition, revenue recognition related to these agreements is delayed until a specified event (such as the death of the lead beneficiary).	Adoption of this standard resulted in a deferral in revenue, specifically: • $12.2 million decrease of net position at July 1, 2016 (cumulative effect adjustment) • $12.7 million decrease in revenue for fiscal 2017 • Immaterial impact on fiscal 2018.
Audit response	
Our procedures included: • detailed testing of a sample of agreements to ensure the proper inclusion/exclusion of contracts in determination of impact • tie out and review of the financial statement disclosures	

Audit risks and results

Significant policies and practices, cont'd

Significant accounting policy or practice	Effect on financial statements or disclosures
In fiscal year 2018, the University implemented a change in its presentation of certain investment expenses within the statement of revenues, expenses and other changes in net position. These expenses had previously been reported within operating expenses, but are now being netted against investment income (non-operating). University management determined that the use of this acceptable alternative accounting presentation is preferable because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns. The reclassification, which has been fully disclosed by management in Note 1 to the financial statements, had no impact on total net position or net cash flows.	Investment expenses totaling \$55 million for fiscal 2017 were reclassified from operating to non-operating expenses, specifically net investment income. Current year investment expenses are \$64 million. This resulted in a similar reclassification between net cash provided (used by) operating activities and net cash provided (used by) investing activities on the statement of cash flows.

Audit response

Our procedures included:

- assessing the permissibility of the reclassification in relation to generally accepted accounting principles and industry practice
- testing of the expense reclassification to ensure consistency with the revised accounting policy
- tie out and review of financial statement disclosures

Other than the investment expense matter discussed above, there were no accounting policies related to controversial or emerging areas or areas for which there was a lack of authoritative guidance or consensus or diversity in practice that affect the financial statements or disclosures of significant accounting policies.

Audit risks and results

Critical accounting estimates -***Valuation of Certain Alternative Investments***

Investments are carried at fair value, based upon quoted market prices when available. Fair values for alternative investments which include real assets, hedge funds and private equity are measured using the net asset value ("NAV") provided by the associated external investment manager/general partners and reviewed by the University using the most recent audited and unaudited financial statements available. The following summarizes alternative investments held by the University by type (this excludes investments in real estate and REITs):

Alternative Investments by Type (in millions)	June 30, 2018		June 30, 2017	
	Year-end Value	% of Total	Year-end Value	% of Total
Real Assets	$691		$709	
Hedge Funds	1,378		1,399	
Private Equity	848		647	
Total Alternative Investments	2,917	42%	$2,755	45%
Total Investment Portfolio	$7,026	100%	$6,059	100%

During our planning communications, we noted a significant risk associated with the valuation assertions relating to certain investments within the alternative investment portfolio for which the investee funds do not follow the measurement principles provided by the FASB's standards on investment companies. Under GASB Statement No. 72, it is not appropriate to use NAV as a practical expedient for valuing these particular investments because the audited financial statements of the fund are not prepared on a basis consistent with FASB standards as it relates to fair value. As such, these investments require further consideration by management to determine fair value and have more subjectivity and judgment involved in their valuation. Of the above, approximately 23 alternative fund investments with fair value of $242.0 million at June 30, 2018 met the definition of our significant risk (compared to 19 alternative fund investments with fair value of $156.5 million at June 30, 2017).

The remaining alternative investment portfolio consists of investments that follow fair value measurement principles provided by the FASB standards on investment companies with information related to net asset value available at period end. Further, the investee funds that follow these FASB standards often invest in marketable investments and typically have a contractual relationship with an administrator that has a control environment attested to by an independent auditor (i.e. a SOC1 report). For these reasons, we do not deem investments in these more traditional types of funds to present a significant or elevated risk of material misstatement, although our approach for all alternative investments is similar.

There have been no significant changes in the processes management uses to estimate fair value of these types of investments, nor were there significant changes in the audit procedures we performed in relation to investments. Details regarding both management's process and our planned audit approach were shared with the Committee as part of our audit plan in April.

Audit risks and results

*Critical accounting estimates – **Patient Accounts Receivable and Related Allowances***

Reported patient revenues represent amounts received and the estimated realizable amounts due from patients and third-party payers for services rendered, net of contractual allowances, charity care and bad debt expenses.

Management's estimates for contractual and bad debts allowances are based on cash collections and adjustments compared to revenue over a rolling twelve month period disaggregated by major payor class (in the case of the Health System) and over a six month period disaggregated by major payor class (in the case of OSUP). Management also performs a look-back analysis of contractual and bad debt allowances established at the end of the prior fiscal year.

The following summarizes the balances for patient accounts receivable and the related allowances:

	Health System		OSU Physicians	
(in millions)	**2018**	**2017**	**2018**	**2017**
Gross patient A/R	$1,036	$987	$111	$102
Reserve for contractual allowances	(548)	(515)	(63)	(59)
Reserve for bad debts	(57)	(84)	(9)	(7)
Other reserves	(58)	(42)	-	-
Other patient A/R, net	31	30	n/a	n/a
Net patient service A/R	$404	$376	$40	$35
Net patient service revenue	$2,878	$2,661	$368	$353
Days revenue in patient accounts receivable	57 days	55 days	39 days	36 days
Bad debt expense, net	$42	$28	$11	$1
As a % of net patient revenue before bad debt provision	1.45%	1.00%	2.96%	0.30%

There have been no significant changes in the processes management uses to estimate these allowances, nor were there significant changes in the audit procedures we performed in relation to patient accounts receivable and related allowances. Details regarding both management's process and our planned audit approach were shared with the Committee as part of our audit plan in April.

Audit risks and results

*Other accounting estimates – **Medical Malpractice Liability***

The University maintains a self-insurance program for professional medical malpractice liability, which is made up of three funds (Fund I, Fund II and Oval) each of which provide for different levels of loss coverage. Management's estimate of professional medical malpractice liability is based on an independent actuarial determination and includes provisions for known claims (case reserves) and estimates of incurred but not reported claims and incidents (IBNR).

A rollforward of the liability is presented below.

(in millions)	June 30, 2018	June 30, 2017
Liability at beginning of fiscal year	$74	$85
Current year provision/(release)	1	(10)
Claim payments	(5)	(1)
Liability at fiscal year-end	70	$74

Key inputs and assumptions related to this liability include historical loss data (which is utilized by the third party actuary to estimate losses) and a discount rate, which management has established at 3% (consistent with prior year). In addition, management has historically applied an additional cost factor to the actuary's estimate to bring the funding requirement to a 75% confidence level (consistent with prior year). This is to address the volatility associated with such liabilities.

There have been no significant changes in the processes management uses to estimate this liability, nor were there significant changes in the audit procedures we performed in relation to this liability. Details regarding both management's process and our planned audit approach were shared with the Committee as part of our audit plan in April.

Audit risks and results

*Other accounting estimates – **Pension and OPEB Liabilities***

GASB Statement No. 68 ("GASB 68") and GASB Statement No. 75 ("GASB 75") require employers that participate in cost-sharing, multi-employer plans (such as the University) to recognize their proportionate share of net pension and net other post-employment benefit (OPEB) liabilities of the plan. The University participates in two such plans, the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System. A proportionate share of the net pension and OBEP liabilities is allocated to the University, based on retirement plan contributions for University employees. The collective net pension and OPEB liabilities of the retirement systems and the University's proportionate share of these liabilities are as follows:

Net Pension Liability	**2018**			**2017**		
(in millions)	STRS - Ohio	OPERS	Total	STRS - Ohio	OPERS	Total
All employers	$23,755	$15,548		$33,473	$22,652	
University's share	4.6%	9.4%		4.5%	9.1%	
University's	$1,081	$1,467	$2,548	$1,511	$2,055	$3,565

Key drivers of the decrease in net pension liability during FY2018 are higher than expected investment returns on both the OPERS and STRS-Ohio pension plan assets in addition to a reduction in the annual cost-of-living adjustment at STRS-Ohio to 0%.

Net OPEB Liability	**2018**			**2017**
(in millions)	STRS - Ohio	OPERS	Total	$1,225 was reflected as cumulative adjustment to opening net position
All employers	$3,902	$10,859		
University's share	4.6%	9.7%		
University's	$178	$1,055	$1,233	

Note that the state plan measurement dates differ from the University's fiscal year-end. The measurement date for STRS-Ohio is June 30, 2017. The measurement date for OPERS is December 31, 2017 for pensions and December 31, 2016 for OPEB.

Audit risks and results

*Other accounting estimates – **Pension and OPEB Liabilities***

Although changes in 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. The following is a rollforward of the pension and OPEB liabilities from year to year (primary institution only):

(in millions)	FY2018	FY2017
Net pension liability at July 1	$3,565	$2,795
Pension expense – GASB 68	(262)	349
Increase (decrease) in deferred outflows of resources	(360)	316
Decrease (increase) in deferred inflows of resources	(395)	106
Net pension liability at June 30	2,548	$3,565

(in millions)	FY2018	FY2017
Net OPEB liability at July 1 (cumulative adjustment)	$1,225	n/a
OPEB expense – GASB 75	21	
Increase (decrease) in deferred outflows of resources	88	
Decrease (increase) in deferred inflows of resources	(101)	
Net OPEB liability at June 30	1,233	

Pension and OPEB expense is allocated across functional categories within the financial statements but disclosed in aggregate, along with pension and OPEB expense related to employer contributions, in the footnotes.

Changes in deferred outflows and inflows are driven by differences between expected and actual earnings on plan investments; changes in assumptions, differences between expected and actual experience, changes in proportion of university contributions, as well as university contributions subsequent to the measurement date.

Disclosures related to GASB 68 and 75 include net deferred inflows and outflows of resources for the next five years and beyond; detail with respect to pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement systems. The benefit formulas as well as significant assumptions are determined at the Plan level and are subject to audit by the State Plan auditors.

There have been no significant changes in the processes management uses to account for these liabilities, nor were there significant changes in the audit procedures we performed. Details regarding both management's process and our planned audit approach were shared with the Committee as part of our audit plan in April.

Audit risks and results

Control deficiencies

We considered the internal control structure of the University to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, though not specifically for the purpose of providing assurance on the internal control structure.

We are required to report to you weaknesses in internal control which are either “significant deficiencies” or “material weaknesses,” both of which represent deficiencies in the design or operation of the internal control structure.

MW - Material weakness	***SD - Significant deficiency***
A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual financial statements will not be prevented or detected on a timely basis.	A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

In the prior year, we identified a significant deficiency at one of the discretely presented component units (Transportation Research Center, Inc. (TRC)) in relation to the oversight and monitoring of a key system implementation, which in combination with significant turnover within its accounting/finance group, resulted in a number of accounting adjustments and delays in the preparation of the financial results for this component unit. In the current year, University management implemented a compensating control wherein additional analytics and analysis of TRC’s reported results was performed at a level of precision such to reduce the likelihood and magnitude of a potential misstatement as it relates to the aggregate Discretely Presented Component Units. As a result, this significant deficiency was deemed remediated for purposes of University reporting.

Other control deficiencies at the University level will be communicated to management in writing upon completion of our fieldwork.

Any significant deficiencies or material weaknesses identified at the stand-alone financial statement level for audited components or affiliates will be communicated to the Committee in January 2019 (upon completion of those audits).

Other required communications

Matter to report	No	Yes	Comments
Independence re-evaluation	✓		There were no independence matters that occurred or were identified subsequent to March 12, 2018, the date of our most recent independence communication to the Audit Committee.
Material uncertainties related to events and conditions (specifically going concern)	✓		There were no conditions or events that we identified indicating there is substantial doubt about the University's ability to continue as a going concern.
Disagreements with management	✓		There were no disagreements with management.
Consultation with other accountants	✓		We are not aware of any consultations management has had with other accountants about significant accounting or auditing matters.
Difficulties encountered during the audit	✓		There were no significant difficulties encountered during the audit. There were no limitations on the system-wide audit including where our access to information at a component was restricted.
Other material written communications		✓	In accordance with our engagement letter, we provide the Committee with copies of all material written communications between us and the University. See Appendix II for draft management representation letter. Final signed copy of the letter will be shared with the Committee Chair.
Fraud	✓		We did not identify any potential or known fraud involving management, employees who have a significant role in the internal control structure or which could be material to the financial statements.
Illegal acts	✓		We did not identify any potential or known illegal acts.
Non-compliance with laws and regulations	✓		We did not identify any instances of non-compliance with laws and regulations

Other required communications

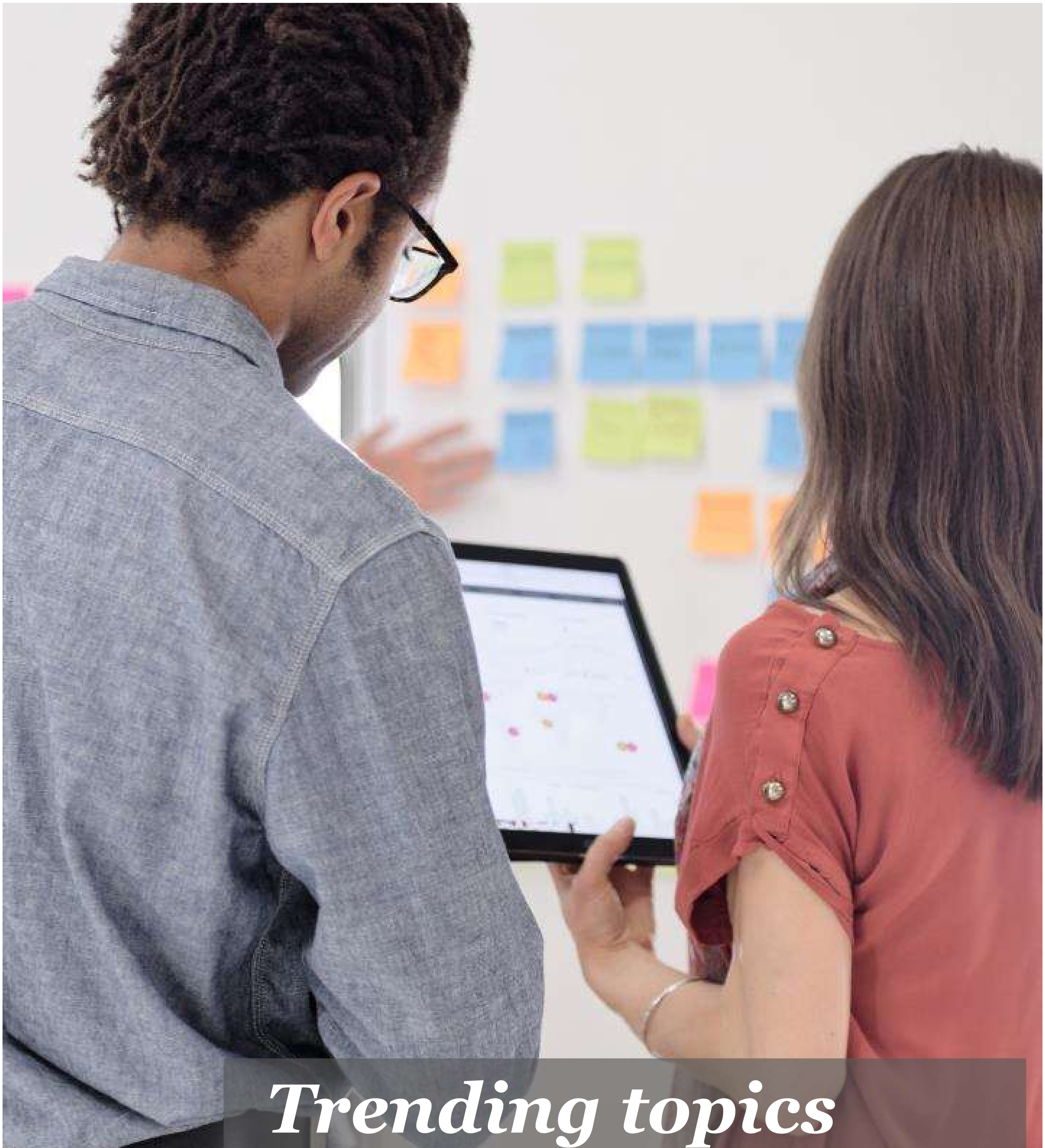
Matter to report	No	Yes	Comments
Significant unusual Transactions		✓	The University entered into a 50-year comprehensive energy management agreement with Ohio State Energy Partners (OSEP) and received a $1.09 billion upfront payment upon settlement on July 6, 2017. Under the agreement, OSEP operates, maintains, and makes capital investments in the utility system and charges the University a utility fee, which includes fixed, variable, and operating and maintenance (O&M) components. The agreement is reflected within the June 30, 2018 University financial statements as follows: • The upfront payment, net of amortization, is reflected as a liability ("Advance from concessionaire") on the statement of net position ($1.05 billion long-term liability at June 30, 2018). The upfront payment is being amortized on a straight-line basis over the contract term ($20 million per year) and is netted against operating expenses. • The fixed and operating components of the utility fee (approximating $53 million for fiscal 2018) are expensed as incurred and reflected within operating expenses. • The variable component of the utility fee is accounted for as a financing arrangement, wherein the University records a long-term payable to the concessionaire when new capital investments are made, subsequently reducing that payable and recognizing interest expense over time as the variable fee is paid. At June 30, 2018, the carrying amount of OSEP capital investments and related long-term payable to the concessionaire was $10 million.

Other required communications

Matter to report	No	Yes	Comments
Other information in documents containing audited/reviewed financial statements	✓		We did not identify any information that was materially inconsistent with the information in the financial statements.
Identified Misstatements		✓	Identified misstatements include those that are uncorrected misstatements related to accounts and disclosures that the auditor presented to management and corrected misstatements, other than those that are clearly trivial, related to accounts and disclosures that might not have been detected except through the auditing procedures performed. There were no corrected misstatements, other than those that are clearly trivial, identified by PwC. One recurring uncorrected misstatement in excess of the established deminimis threshold ($11.7 million) was identified related to the Primary Institution: • Understatement of current year Health System revenue related to a lag in timing of positive claims adjustments ($12.7M in FY18). This is offset in large part by the impact of the same misstatement in FY17, which was recorded as an out of period adjustment in the current year (resulting in a $14.8M overstatement of FY18 revenue). The net impact on FY18 is a $2.1M overstatement of revenue. Two out of period adjustments in excess of the established deminimis threshold ($1.1 million) were identified related to the Discretely Presented Component Units: • Understatement of TRC revenue of $1.1 million due to adjustments identified at the stand-alone financial statement level in FY17 after issuance of the University's FY17 financial statements. The University has reflected this adjustment in the FY18 financial statements, thereby overstating FY18 revenue. • Overstatement of Campus Partners current period expense / overstatement of opening net position related to the timing of an accrual ($1.5M of expense in FY18 that should have been reflected in FY17) Management determined the impact of the above to be both quantitatively and qualitatively immaterial to both the current and prior year financial statements. We agree with management's conclusions. See Appendix II for additional detail.

Other required communications

Matter to report	No	Yes	Comments
Alternative Accounting Treatments	✓		We did not identify any alternative treatments permissible under US GAAP for accounting policies and practices related to material items, including recognition, measurement, and presentation and disclosure.
Quality of the company's financial reporting	✓		We have performed an evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement and content of the financial statements (including the accompanying notes). We did not identify any instances of non conformity. We have evaluated the potential effect on the financial statements of significant exposures and risks, and uncertainties, such as pending litigation, that are disclosed in the financial statements. We did not identify any matters. We have evaluated whether the difference between estimates best supported by the audit evidence and estimates included in the financial statements, which are individually reasonable, indicate a possible bias on the part of the company's management. We did not identify any areas of possible bias.
Departure from Standard Report	✓		We anticipating issuing unqualified reports in relation to the University's financial statements, with an emphasis of matter paragraph addressing the implementation of new accounting standards. See Appendix I for drafts of these reports.
Other Matters	✓		There were no other matters arising from the audit that are significant to the oversight of the University's financial reporting process.



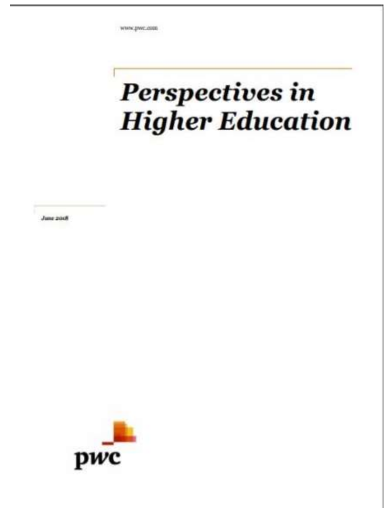
Trending topics

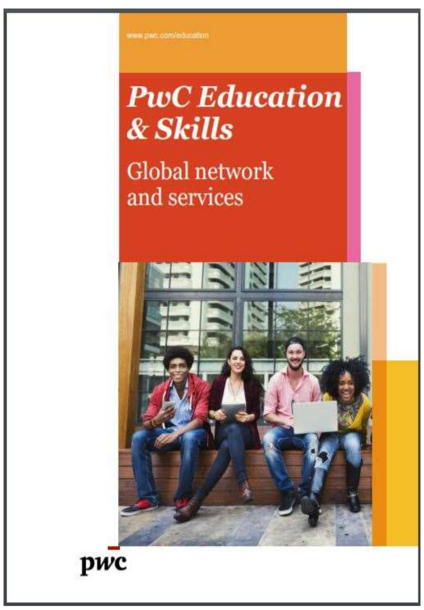
pwc

Higher Education Industry

Perspectives in Higher Education

The higher education environment continues to be complex, with increasing expectations about performance, accountability and value from many constituents including students, parents, regulators, donors and federal and state governments. This paper shares PwC's insights into the key challenges and related opportunities facing colleges and universities, and offers an informed point of view on how institutions might proactively respond.





PwC Education and Skills - Global Network and Services

As world economies recover from almost a decade of financial crisis, one thing is clear: education remains an important priority around the world. Educational institutions face unprecedented change driven by the five megatrends (see below) shaping the 21st century. Leaders of educational institutions around the world are facing a similar set of strategic questions. At PwC, our purpose is to build trust in society and solve important problems. We have one of the largest dedicated education and skills practices globally, and this capability statement provides an overview of our service offerings and experience.

Please visit our Higher Education regulatory center page for regulatory and legislative updates and insights;

Accounting standards

Accounting standards on the horizon for GASB entities

Fiscal Year 2019	***Certain asset retirement obligations***	***Certain disclosures related to debt***
Fiscal Year 2020	***Fiduciary activities*** *(periods beginning after December 15, 2018)*	
Fiscal Year 2021	***Leases*** *(periods beginning after December 15, 2019)*	

Certain asset retirement obligations

GASB Statement No. 83, *Certain Asset Retirement Obligations,* was issued in November 2016. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The guidance also identifies the circumstances that trigger recognition of these transactions.

- The Statement requires the recognition of an asset retirement obligation (ARO) occur when the liability is both incurred and reasonably estimable.
- Initial measurement of an ARO is based on the best estimate of the current value of outlays expected to be incurred.
- The deferred outflow of resources associated with an ARO will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service.
- This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays.

The requirements of Statement No. 83 are effective for the University in 2019 with earlier application encouraged. Disclosure requirements include a general description of the ARO and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information.

The University is in the process of assessing the potential financial statement impact of the new guidance. The guidance may impact the University's financial statement presentation and processes.

Certain disclosures related to debt

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, was issued in March 2018 to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Debt for purposes of disclosure in notes to financial statements is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including:

- Unused lines of credit;
- Assets pledged as collateral for the debt; and
- Terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of Statement No. 88 are effective for the University in 2019. Earlier application is encouraged.

The University is in the process of assessing the potential financial statement impact of the new guidance. The new guidance may impact the University's financial statements and processes.

Fiduciary Activities

GASB Statement No. 84, *Fiduciary Activities,* was issued in January 2017 to enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this Statement apply to the financial statements of all state and local governments.

The focus of the criteria for identifying activities that should be reported as fiduciary activities generally is on:
(1) whether a government is controlling the assets of the fiduciary activity and
(2) the beneficiaries with whom a fiduciary relationship exists.

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in the fiduciary fund financial statements (a statement of fiduciary net position and a statement of changes in fiduciary net position) of the basic financial statements.

This Statement describes four fiduciary funds that should be reported, if applicable:
(1) pension (and other employee benefit) trust funds,
(2) investment trust funds,
(3) private-purpose trust funds and
(4) custodial funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for the University in 2020. Earlier application is encouraged. The University is in the process of assessing the potential financial statement impact of the new guidance. The guidance may impact the University's financial statement presentation and processes.

Leases

On June 28, 2017, the GASB issued governmental lease accounting standard Statement No. 87, *Leases,* which will bring substantially all leases on to lessees' balance sheets.

Lessees

For operating leases (other than short-term leases), lessees will be required to recognize an asset for the right to use the leased item and a corresponding lease liability.

With the exception of short-term leases, all distinctions between operating and capital leases will be eliminated, and all leases will be treated as financings (similar to capital lease accounting today). Lease liabilities will be considered long-term debt and lease payments will be capital financing outflows in the cash flow statement. In the activity statement, lessees will no longer report rent expense for today's operating-type leases, but will instead report interest expense on the liability and amortization expense related to the asset.

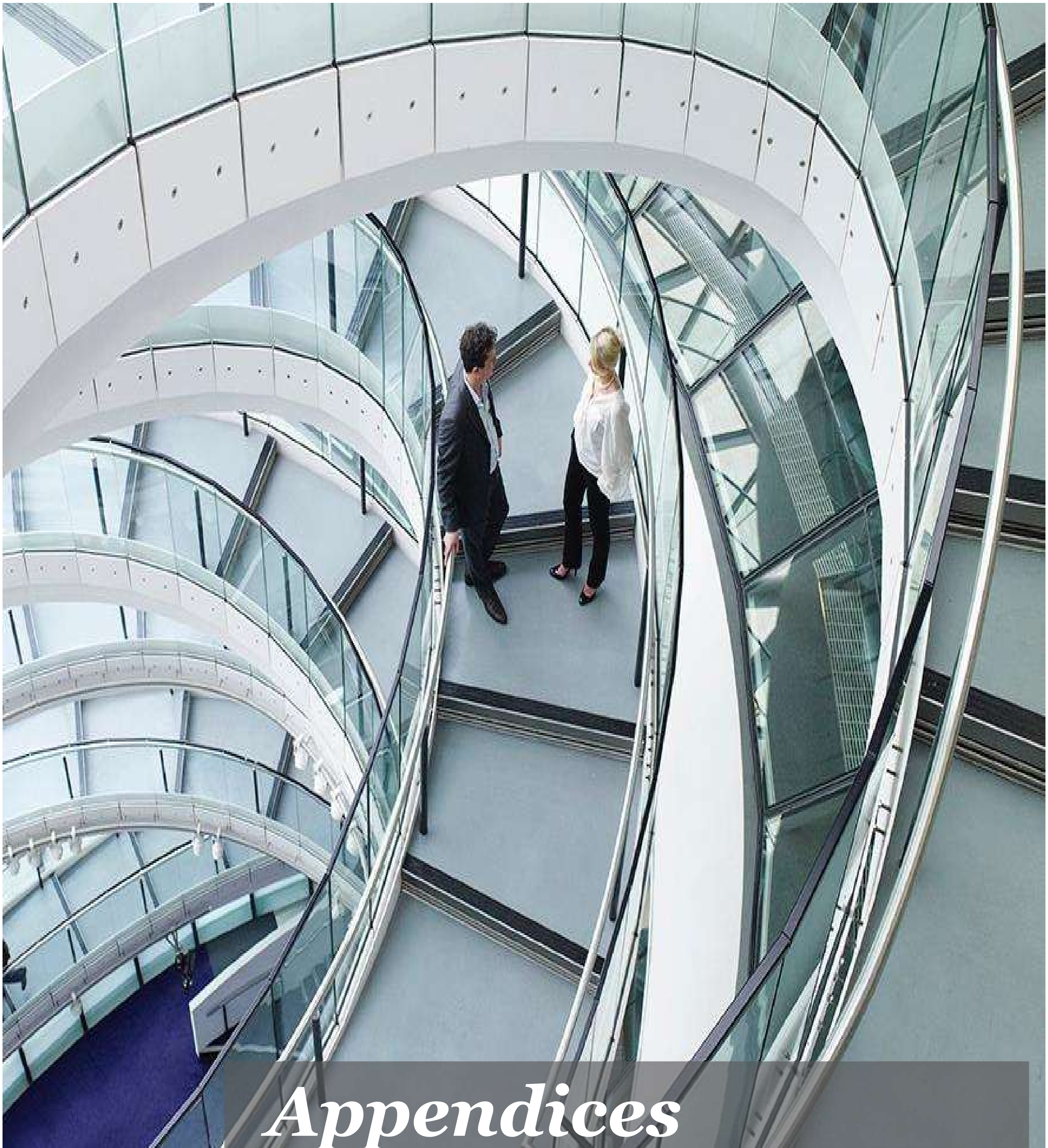
Lessors

Lessor accounting will mirror lessee accounting. Lessors will recognize a lease receivable and a corresponding deferred inflow of resources (with certain exceptions) while continuing to report the asset underlying the lease. Interest income associated with the receivable will be recognized using the effective interest method. Lease revenue will arise from amortizing the deferred inflow of resources in a systematic and rational manner over the lease term.

Once the new standards take effect, FASB and GASB entities will apply different accounting for operating-type leases. This may add complexity when comparing financial statements of entities in sectors comprised of both GASB and FASB reporters, such as higher education and healthcare.

The requirements of Statement No. 87 are effective for the University in 2021, with earlier application encouraged.

The University has begun to assess the potential financial statement impact of the new guidance, and that it is expected to have a significant impact on our financial statements and processes.



Appendices

Appendix I – Audit report draft

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Report of Independent Auditors

To the Board of Trustees of
The Ohio State University
Columbus, Ohio:

We have audited the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise The Ohio State University (the "University"), appearing on pages 22 to 88, which consist of the statements of net position as of June 30, 2018 and June 30, 2017, the related statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. The University is a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary institution and the aggregate discretely presented component units of the University as of June 30, 2018 and June 30, 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the University changed the manner in which it accounts for postemployment benefits other than pensions and the manner in which it accounts for irrevocable split-interest agreements in 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 21, the Required Supplementary Information on GASB 68 Pension Liabilities on page 89 and the Required Supplementary Information on GASB 75 Net OPEB Liabilities on page 90 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying other information on the long-term investment pool on pages 91 through 92 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November X, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

November X, 2018

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

To the Board of Trustees of
The Ohio State University
Columbus, Ohio:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise The Ohio State University (the "University"), appearing on pages 22 to 88, which consist of the statements of net position as of June 30, 2018, and the related statements of revenues, expenses and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November X, 2018, which included a matter of emphasis paragraph concerning the University's change in the manner in which it accounts for postemployment benefits other than pensions and irrevocable split-interest agreements. The University is a component unit of the State of Ohio.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

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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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November X, 2018

Appendix II – Management representation letter draft

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[OSU Letterhead]

November X, 2018

PricewaterhouseCoopers LLP
41 South High Street
Suite 2500
Columbus, OH 43215

I am providing this letter in connection with your audits of the financial statements of The Ohio State University (the "University") for the purpose of expressing opinions as to whether such financial statements present fairly, in all material respects, the respective financial position as of June 30, 2018 and June 30, 2017 of the primary institution and the aggregate discretely presented component units of the University, and the respective changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. I have reviewed the signed representation letter of our chief financial officer and I am not aware of information that would make the representations included therein inaccurate or incomplete.

____
Michael V. Drake, MD
President
The Ohio State University

[OSU Letterhead]

November X, 2018

PricewaterhouseCoopers LLP
41 South High Street
Suite 2500
Columbus, OH 43215

We are providing this letter in connection with your audits of the financial statements of The Ohio State University (the "University") as of June 30, 2018 and June 30, 2017 and for the years then ended for the purpose of expressing opinions as to whether such financial statements present fairly, in all material respects, the respective financial position, changes in net position and cash flows of the primary institution and aggregate discretely presented component units of the University in conformity with accounting principles generally accepted in the United States of America.

We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter of May 3, 2018, for the preparation and fair presentation in the financial statements of financial position, respective changes in net position, and of cash flows in conformity with generally accepted accounting principles, including the appropriate selection and application of accounting policies. Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Materiality used for purposes of these representations is $ 5,000,000.

We confirm, to the best of our knowledge and belief, as of November X, 2018, the date of your report, the following representations made to you during your audit(s):

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the University is subject. We have prepared the University's financial statements on the basis that the University is able to continue as a going concern, There are no conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

2. We have made available to you:

   a. All financial records and related data.

   b. Unconditional access to persons within the entity from whom you have requested audit evidence.

   c. All minutes of the meetings of the Board of Trustees, the Audit and Compliance Committee, the Finance Committee and other Committees of the Board and summaries of actions of recent meetings for which minutes have not yet been prepared. The most recent meetings held were on:

      (1) Board of Trustees – November 16, 2018

      (2) Audit and Compliance Committee – November 15, 2018

      (3) Finance Committee – November 15, 2018

(4) Academic Affairs and Student Life Committee – August 30, 2018

(5) Advancement Committee – August 30, 2018

(6) Governance Committee – August 31, 2018

(7) Talent and Compensation Committee – August 30, 2018

(8) Master Planning and Facilities Committee – August 30, 2018

3. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements, as necessary. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa. All consolidating entries have been properly recorded. All intra-entity accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

5. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the financial statements.

6. The effects of the uncorrected financial statement misstatements and out-of-period adjustments summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

7. We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter of May 3, 2018, 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 and we have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware. We have also disclosed to you which of these deficiencies, if any, we believe are significant deficiencies or material weaknesses in internal control over financial reporting.

8. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud and we have no knowledge of any fraud or suspected fraud affecting the University involving:

   a. Management,
   b. Employees who have significant roles in internal control over financial reporting, or
   c. Others where the fraud could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the University received in communications from employees, former employees, analysts, regulators, or others.

(As to items 8, 9 and 10, we understand the term "fraud" to mean those matters described in AICPA AU-C 240.)

11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

12. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

13. We have identified and disclosed to you violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for auditor reporting on non-compliance.

14. We have taken timely and appropriate steps to remedy fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse that you report.

15. The University has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

16. We have disclosed to you the identity of the University's related parties and all the related party relationships and transactions of which we are aware.

17. The following, if material, have been properly recorded or disclosed in the financial statements:

    a. Relationships and transactions with related-parties, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the University is contingently liable.

    c. Significant estimates and material concentrations known to management that are required to be disclosed. (Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.)

18. The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.

19. The University has complied with all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance.

20. Receivables recorded in the financial statements represent bona fide claims against debtors for services or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

21. Inventories recorded in the financial statements for the University are stated at the lower of moving average cost or market. The inventories of the Health System are valued at, cost being determined on the basis of first-in, first-out basis and due provision was made to reduce all slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. Inventory quantities at the balance

sheet dates were determined from physical counts or from perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees at various times during the year. Liabilities for amounts unpaid are recorded for all items included in inventories at balance sheet dates and all quantities billed to customers at those dates are excluded from the inventory balances.

22. All liabilities of the University of which we are aware are included in the financial statements at the balance sheet dates. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed, and no unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed.

23. We are responsible for all significant estimates and judgments affecting the financial statements. Significant estimates and judgments and their underlying assumptions, methods, procedures and the source and reliability of supporting data are reasonable and based on applicable guidance, are completely and appropriately disclosed in the financial statements, and appropriately reflect management's intent and ability to carry out specific courses of action, where relevant. The procedures and methods utilized in developing assumptions, estimates and judgments are appropriate and have been consistently applied in the periods presented. There have been no subsequent events which would require the adjustment of any significant estimate and related disclosures.

24. All borrowings and financial obligations of the University and its components have been disclosed to you and are properly recorded and disclosed in the financial statements. Further, we appropriately classified debt as current or non-current in the statement of net position in accordance with the appropriate authoritative guidance.

25. Investments in the Long-Term Portfolio are in compliance with the University's asset allocation policy.

26. We are responsible for the fair value of estimates related to temporary investments, the Long-term Investment Pool, other long-term investments, and securities loaned by the University under its securities lending program, including real assets, hedge funds and private equity securities, and determined the models, methods and assumptions used by pricing services and other parties are reasonable. In addition, the measurement of fair value and related fair value levelling hierarchy presented within the notes to the financials is consistent with the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*.

27. Tax-exempt bonds issued have retained their tax-exempt status

28. The University has properly recorded, classified and disclosed net position in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Net position resulting from transactions with externally-imposed purpose restrictions have been recorded, classified and disclosed as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact. Restricted net position has been appropriately classified as nonexpendable or expendable.

29. The University has one segment that meets the GASB reporting requirements; in that the segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains, losses, assets and liabilities that can be identified. The condensed financial information for the Special Purpose Revenue Facilities as presented in the footnotes to the financial statements was prepared on a basis consistent with the University financial statements.

30. We assume responsibility for the findings of specialists. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have had an impact on the independence or objectivity of the specialists. We adequately considered qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records related to self-insurance reserves for medical malpractice.

31. We have presented, in either the statement of revenues, expenses, and other changes in net position or the notes to the financial statements, information about expenses (but not losses) reported by their functional classification, such as major classes of program services and supporting activities. Expenses that relate to more than one program or supporting activity, or to a combination of programs and supporting services, have been appropriately allocated among the appropriate functions. Administrative allocations to the functional categories were based on full cost allocations.

32. We acknowledge our responsibility for the presentation of the required supplementary information on GASB 68 pension liabilities and GASB 75 other postemployment benefit liabilities that are mandatory for all cost-sharing employers. We believe such information, including its form and content, is fairly presented in accordance with GASB Statement Nos. 68 and 75, as amended. The methods of measurement or presentation have not changed from those used in the prior period. We have informed you about any significant assumptions or interpretations underlying the measurement or presentation of the information.

33. The University is exempt from taxes as an instrumentality of the State of Ohio under Internal Revenue Code S115 and Internal Revenue Service regulations. Any unrelated business income is taxable.

34. We have notified you of (i) any current or planned offerings of securities on a regulated market in a non-U.S. country or (ii) when we have provided or plan to provide audited financial statements to a non-U.S. regulator or government in connection with our access to its public capital markets, whether or not we include or refer to your report or include reference to your Firm.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Michael Papadakis
Interim Senior Vice President for Business and Finance,
CFO and Treasurer

Kristine G. Devine
Vice-President of Financial Operations and Deputy Chief
Financial Officer

Lisa A. Plaga
Controller

Thomas F. Ewing
Director of Financial Reporting

Summary of Uncorrected Financial Statement Misstatements (in 000's)

The following adjustments were either (a) identified in the current year and not recorded in the financial statements (unadjusted misstatements), or (b) identified in the current year but were related to the prior years and corrected in the current year financial statements (out of period adjustments). Management has determined them to be qualitatively and quantitatively immaterial, both individually and in the aggregate on both current and prior year financial statements ($'s in 000's):

<u>Primary Institution:</u>

<u>Unadjusted misstatements – FY 18:</u>

1) An *estimated* current period adjustment was identified related to credit balances in patient accounts receivable of $12.7 million, that represent net patient accounts receivable balances that have been adjusted in excess of the amount of cash collected and earned by the Health System. These adjustments represent overstatements of contractual and bad debt expense at 6/30/2018 that are not reversed until fiscal 2019 upon investigation of the claim. The adjustment results in a decrease to the liability (as credits within accounts receivable were reclassified) and an increase to net patient service revenue, through a reduction of contractual and bad debt expense. This is a recurring adjustment and as such refer to the rollover section for the net impact on the current year.

The total effect on the primary institution's relevant metrics are as follows:

- Understatement of Total Revenues ($12,727) / (0.20%)
- Understatement of End of Year Net Position ($12,727) / (0.24%)

<u>Out of Period Adjustments – FY 18:</u>

1) The above credit balance adjustment is recurring in nature. There was a $14.8M overstatement of contractual and bad debt expense in FY17 (reflected as an understatement of FY17 revenue), that was recorded as an out of period adjustment in the current year – thereby overstating FY18 revenue by an amount which almost offsets the above).

The total effect on the primary institution's relevant metrics are as follows:

- Overstatement of Total Revenues $14,775 / 0.23%
- Overstatement of End of Year Net Position $14,775 / 0.28%

<u>Roll over impact of misstatement – FY 18</u>

The net rollover impact of the above errors has been evaluated as follows:

- Net overstatement of Total Revenues $ 2,048 / 0.03%
- Net overstatement of End of Year Net Position $ 2,048 / 0.04%

<u>Discretely Presented Component Units:</u>

<u>Unadjusted misstatements – FY 18: None noted</u>

<u>Out of Period Adjustment – FY 18:</u>

1) Understatement of FY17 TRC revenue of $1.1 million due to adjustments identified at the stand-alone financial statement level in FY17 after issuance of the University's FY17 financial statements. The University has reflected this adjustment in the FY18 financial statements, thereby overstating FY18 revenue.

2) Overstatement of Campus Partners current period expense / overstatement of opening net position related to the timing of an accrual ($1.5M in FY18 that should have been reflected in FY17)

   The total effect on the discretely presented component unit's relevant metrics are as follows:

   - Overstatement of Total Revenues $1,144 / 0.19%
   - Overstatement of Total Expenses ($1,467)/ 0.25%
   - Net understatement of End of Year Net Position ($323) / 0.19%

Appendix III – Status of PwC Deliverables (as of October 22, 2018)

University Audit	Components	Deliverables	Status (at Oct 22)
Primary Institution	General University	Financial Statement Audit Opinion (GASB) GAGAS Internal Controls Opinion (including procedures to support compliance with Ohio Revised Code)	Nov 15
	OSU Wexner Medical Center Health System (OSU Health System)		
Discretely Presented Component Units	OSU Physicians		
	Campus Partners for Community Urban Redevelopment and Subsidiaries (Campus Partners)		
	Transportation Research Center Inc.		
	Dental Faculty Practice Association, Inc.		

Other Deliverables	Reporting Entity	Status (at Oct 22)
Stand-alone Financial Statement Audits	OSU Foundation	Completed, pending Foundation Board Approval
	OSU Health System	Completed
	Transportation Research Center	Nov 15
	OSU Physicians	Completed
	Athletics Department	Nov 15
	WOSU Public Media	Dec 15
	OSU Global Gateways	Completed
	Campus Partners	October 31
Compliance	Uniform Compliance	December 15
Review report	Wexner Center for the Arts	October 31
	OSU Health Plan	Nov 9
Agreed Upon Procedures	NCAA	Nov 15
Benefit Plan Audit	Transportation Research Center – Benefit Plan	Completed

ENTERPRISE PROJECT

Audit Committee Update – Scorecard

Status as of October 15, 2018

The Ohio State University

THE OHIO STATE UNIVERSITY

Enterprise Project Scorecard as of 10/15/18

PROGRAM MANAGEMENT		
Area	**Status**	**Key Updates**
Overall	Y Y	***Rationale for Status***: Executive Sponsors made several key business decisions and continue to focus on closing overdue key decisions in HR, Finance, and Supply Chain. System Dispositions have all either been completed or have a plan for completion that has been reviewed and approved by project leadership team, which has reduced risks in the technical workstream. The team also: assigned a project manager for the Student Constituent Relationship Management initiative; rolled out the Tableau analytics platform; and deployed an Activity Baseline Survey to ~3,000 staff to support workforce planning / training.
Scope and Deliverables	G G	• Completed detailed scope review and resource plan for the Student Constituent Relationship Management initiative • Progressed on the award for the third-party Quality Assurance partner, which has been finalized
Schedule	Y Y	• Brought technology workstream back on-schedule • Realigned resources to progress against upcoming critical path activities (i.e., building the next Workday Tenant) • Began re-plan of HR Academics schedule due to resource turn-over • Fell slightly behind schedule in Finance within the Expenses business process area due to delayed delivery of enhanced Workday functionality
Budget	G G	• Detailed scope review complete for Student Constituent Relationship Management and received direction for Digital Home – on track to be within budget • To remain green in this area, the teams must continue to monitor and manage resource plans and scope

BUSINESS PROCESS / TRANSFORMATION	
Status	**Key Updates**
Y Y	• Completed workshops to streamline the future-state fee authorization processes • Socialized the non-employee populations key decisions with the Risk Management Advisory Committee and Executive Sponsors • Engaged senior business officer (SBO) community on distribution of workforce planning Activity Baseline Survey

TECHNOLOGY (WORKDAY + RELATED SYSTEMS)	
Status	**Key Updates**
Y Y	• Completed or planned to complete all system dispositions • Working with business process teams to finalize conversion requirements • Prioritizing system disposition decisions that could result in systems needing to be built or purchased to replace prior functionality

ORGANIZATIONAL CHANGE MANAGEMENT (OCM)	
Status	**Key Updates**
G G	• Re-engaged Faculty Advisory Committee and University Staff Advisory Council to grow program awareness and capture feedback • Modified the OCM team structure and personnel to integrate more closely in the business areas and project leadership • Recognized by peer institutions at Workday Rising for effective communications (website)

Scale — G: Program is on plan; mitigation plans in place for identified risks — Y: Delayed progress, new risks identified, and/or issues have occurred; resolution action underway — R: Critical work delayed or significant issues require immediate attention; project objectives are at risk — Small dot represents previous period's status; large dot represents current period's status

THE OHIO STATE UNIVERSITY

Enterprise Project Scorecard as of 10/15/18

Key Accomplishments Since Last Report

- Partnered with HR, Supply Chain and B&F leadership to prepare the university community for the Activity Baseline Survey; this will support the HR service delivery initiative and Finance Workforce Planning efforts
- Supported the Office of Human Resources with an HR Town Hall to share an overview of the future state HR service delivery model
- Coalesced the Executive Steering Committee around the concept of a shared "Digital Home," i.e., a student and employee website/mobile site to organize key information
- Re-engaged the Faculty Advisory Committee after summer break to obtain feedback regarding change impacts and generate awareness of other system changes
- Released HR Case Management RFP for implementation partner
- Obtained Executive Sponsors' decision or direction regarding several open key decisions, including: Cell Phone Allowance, Overtime Calculations, and Shift Differential
- Drafted Initiative Freeze Approach
- Finalized GHX Contract (a supply chain technology) to be used across campus and the Wexner Medical Center

Issues and Risks for Board Awareness

- **Issue**: *Several complex key decisions are overdue.*
  - Implication: Further delays in business unit decision making could result in rework and schedule delays. Decisions that could result in new systems either being built or purchased introduce budget risk.
  - Mitigation Plan: Executive Sponsor Group and their Business Advocates are working closely with the Business Owners to resolve open design decisions. High priority focus on overdue and near-term coming due decisions.
- **Risk**: *Coordinating a complex transformation program alongside other university priorities.*
  - Implication: Competing priorities could detract attention from Enterprise Project critical path.
  - Mitigation Plan: Executive Sponsor Group actively engaged with their respective business areas to ensure appropriate focus. Plan to implement Initiative Freeze Approach to ensure understanding of implementation risks when units pursue other initiatives.
- **Risk**: *Retaining critical talent and knowledge in a competitive talent market.*
  - Implication: Turnover of staff could disrupt critical path activities and adversely impact post go-live operations.
  - Mitigation Plan: Executive Sponsor Group and Project Leadership Team have designed and executed a talent management approach that focuses on employee engagement and financial incentives, including supplemental compensation and retention-based bonuses for high performers and unique skills. Assessing and advancing a workforce planning approach.

PHASE FOR RELEASE 1 IN JULY 2020

Plan → Architect → **Configure & Prototype** → Test → Deploy

APPROVAL TO SUBMIT AUDITED CONSOLIDATED FINANCIAL STATEMENTS (DRAFT) TO THE AUDITOR OF STATE

Synopsis: Approval to submit the draft audited consolidated financial statements to the Auditor of State, is proposed.

WHEREAS The Ohio State University annually seeks an independent audit of the consolidated financial statements as a matter of strong financial oversight; and

WHEREAS the Auditor of State is required under Ohio law to audit each public office; and

WHEREAS the university is a public office and is required under Ohio law to file a financial report with the Auditor of State for each fiscal year; and

WHEREAS the university operates on a fiscal year ended June 30 of each year; and

WHEREAS the university has produced consolidated financial statements for the 2017 and 2018 fiscal years, in accordance with accounting principles, generally accepted in the United States; and

WHEREAS the university engages an outside auditing firm, currently PricewaterhouseCoopers LLC, to audit its consolidated financial statements; and

WHEREAS the university management and PricewaterhouseCoopers have produced a final draft of the audited consolidated financial statements for the 2017 and 2018 fiscal years; and

WHEREAS the Auditor of State may accept the audited consolidated financial statements in lieu of the audit required by Ohio law; and

WHEREAS the audited consolidated financial statements will not be final until approved by the Auditor of State:

NOW THEREFORE

BE IT RESOLVED, That the Board of Trustees hereby accepts the draft audited consolidated financial statements for the 2017 and 2018 fiscal years; and

BE IT FURTHER RESOLVED, That the Board of Trustees hereby approves the submission of these consolidated financial statements to the Auditor of State for review and approval.

The Ohio State University

(A Component Unit of the State of Ohio)

Financial Statements
As of and for the Years Ended June 30, 2018 and 2017
And Report of Independent Auditors

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Report of Independent Auditors

To the Board of Trustees of
The Ohio State University
Columbus, Ohio:

We have audited the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise The Ohio State University (the "University"), appearing on pages 22 to 88, which consist of the statements of net position as of June 30, 2018 and June 30, 2017, the related statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. The University is a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary institution and the aggregate discretely presented component units of the University as of June 30, 2018 and June 30, 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
T: (614) 225 8700, F: (614) 224 1044, www.pwc.com

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the University changed the manner in which it accounts for postemployment benefits other than pensions and the manner in which it accounts for irrevocable split-interest agreements in 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 21, the Required Supplementary Information on GASB 68 Pension Liabilities on page 89 and the Required Supplementary Information on GASB 75 Net OPEB Liabilities on page 90 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying other information on the long-term investment pool on pages 91 through 92 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November X, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

November X, 2018

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University (the "university") for the year ended June 30, 2018, with comparative information for the years ended June 30, 2017 and June 30, 2016. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About The Ohio State University

The Ohio State University is the State of Ohio's flagship research institution and one of the largest universities in the United States of America, with over 66,000 students, 7,000 faculty members and 26,000 staff members. Founded in 1870 under the Morrill Land Grant Act, the university – which was originally known as the Ohio Agricultural and Mechanical College -- has grown over the years into a comprehensive public institution of higher learning, with over 200 undergraduate majors, 166 master's degree programs, 120 doctoral programs and nine professional degree programs.

The university is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The university's 15 colleges, four regional campuses, the Wexner Medical Center and various academic support units operate largely on a decentralized basis. The Board approves annual budgets for university operations, but these budgets are managed at the college and department level.

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

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

The Health System provided services to approximately 64,500 adult inpatients and 1,800,000 outpatients during fiscal year 2018 and 61,700 adult inpatients and 1,764,000 outpatients during fiscal year 2017.

The following financial statements reflect all assets, liabilities, deferred inflows/outflows and net position (equity) of the university, the Ohio State University Wexner Medical Center, the Ohio Agricultural Research and Development Center (OARDC) and the Ohio Technology Consortium (OH-TECH), which is an umbrella organization that includes the Ohio Academic Resources Network (OARnet), the Ohio Supercomputer Center and the Ohio Library and Information Network (OhioLINK). These entities constitute the "primary government" for financial reporting purposes. In addition, the financial statements include consolidated financial results for a number of "component units", which are legally separate entities that meet the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*.

The following component units are considered to "exclusively benefit" the university and are shown in a blended presentation with the primary government:

- The OSU Foundation (a fundraising foundation operating exclusively for the benefit of the university)
- OSU Health Plan (a non-profit organization – formerly known as OSU Managed Health Care Systems -- that administers university health care benefits)
- Oval Limited (captive insurer that provides medical malpractice coverage to university hospitals and physicians)

The GASB has indicated that, under the amended consolidation standards, the "exclusive benefit" criterion for blending is not met when a component unit provides services to parties external to the primary government. As a result, the university presents the following component units in a discrete presentation:

- OSU Physicians, Inc. (the practice group for physician faculty members of the Colleges of Medicine and Public Health)
- Campus Partners for Community Urban Redevelopment (a non-profit organization participating in the redevelopment of neighborhoods adjacent to the main Columbus campus)
- Transportation Research Center, Inc. (an automotive research and testing facility in East Liberty, Ohio)
- Dental Faculty Practice Association (the practice group for faculty members of the College of Dentistry)

Condensed financial information for both blended and discretely presented component units is provided in the Notes to the Financial Statements. The university is considered a component unit of the State of Ohio and is included in the State of Ohio's Comprehensive Annual Financial Report.

About the Financial Statements

The university presents its financial statements in a "business type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34.* In addition to this MD&A section, the financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Other Changes in Net Position, a Statement of Cash Flows and Notes to the Financial Statements. Separate columns are presented for the primary institution (which includes the primary government and the blended component units), discretely presented component units and the total university. Unless otherwise specified, the amounts presented in this MD&A are for the primary institution.

The **Statement of Net Position** is the university's balance sheet. It reflects the total assets, deferred outflows, liabilities, deferred inflows and net position (equity) of the university as of June 30, 2018, with comparative information as of June 30, 2017. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at fair value. Capital assets, which include the university's land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

- Net investment in capital assets
- Restricted – Nonexpendable
- Restricted – Expendable
- Unrestricted

In addition to assets, liabilities and net position, the university's balance sheet includes deferred outflows of resources and deferred inflows of resources. Deferred outflows are similar to assets and will be recognized as expense in future periods. Deferred inflows are similar to liabilities and will be recognized as revenue (or reductions of expense) in future periods.

The **Statement of Revenues, Expenses and Other Changes in Net Position** is the university's income statement. It details how net position has increased (or decreased) during the year ended June 30, 2018, with comparative information for the year ended June 30, 2017. Tuition revenue is shown net of scholarship allowances, patient care revenue is shown net of contractual allowances, charity care and bad debt expense, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

It should be noted that the required subtotal for net operating income or loss generally will reflect a "loss" for state-supported colleges and universities. This is primarily due to the way operating and non-operating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all university expenses, except for interest on long-term debt and certain investment management expenses. Operating revenues, however, *exclude* certain significant revenue streams that the university and other public institutions have traditionally relied upon to fund current operations, including state instructional support, current-use gifts and investment income.

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2018, with comparative information for the year ended June 30, 2017. It breaks out the sources and uses of university cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the university's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales of investments are reflected as investing activities.

The **Notes to the Financial Statements,** which follow the financial statements, provide additional details on the numbers in the financial statements. Behind the notes is a section that provides required supplementary information related to pensions and other post-employment benefits and other information on the university's Long-Term Investment Pool.

Financial Highlights and Key Trends

On April 10, 2017, the university entered into a 50-year comprehensive energy management agreement with Ohio State Energy Partners (OSEP) and received a $1.09 billion upfront payment upon settlement on July 6, 2017. $820 million of the upfront proceeds have been invested in the university's Long Term Investment Pool as of June 30, 2018. The remainder of the upfront proceeds will be used to finance capital projects. The upfront payment is reflected as an advance from concessionaire on the university's Statement of Net Position and is being amortized as a reduction to operating expense over the 50-year term of the agreement.

On July 1, 2017, the university implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of the new standard – which requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded other postemployment benefit (OPEB) liabilities – resulted in a $1.22 billion reduction in the university's opening unrestricted net position. The net OPEB liability recognized by the university at June 30, 2018 was $1.25 billion.

Excluding the cumulative effect of the adoption of GASB 75, total net position for the primary institution increased $1.05 billion in Fiscal Year 2018, primarily due to a combination of strong Health System operating results, increases in the fair value of university investments and a reduction in net pension liabilities.

Demand for an Ohio State education and outcomes for students remain strong. 66,444 students were enrolled in Autumn 2017, up 398 students compared to Autumn 2016. 94% of the freshmen enrolled in Autumn 2016 returned to OSU in Autumn 2017. Over 62% of students graduated within four years, and over 82% graduated within six years.

The following sections provide additional details on the university's 2018 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Statement of Net Position

Summary Statement of Net Position *(in thousands)*

	2018	2017	2016
Cash and temporary investments	$ 3,023,554	$ 2,230,609	$ 1,971,929
Receivables, inventories, prepaids and other current assets	845,332	757,389	709,872
Total current assets	3,868,886	2,987,998	2,681,801
Restricted cash	564,656	666,032	802,707
Noncurrent notes and pledges receivable, net	112,019	108,073	106,629
Long-term investment pool	5,211,434	4,253,459	3,616,562
Other long-term investments	163,946	143,638	132,971
Capital assets, net of accumulated depreciation	5,043,222	4,883,584	4,852,433
Total noncurrent assets	11,095,277	10,054,786	9,511,302
Total assets	14,964,163	13,042,784	12,193,103
Deferred outflows	737,903	1,012,937	698,125
Total assets and deferred outflows	$ 15,702,066	$ 14,055,721	$ 12,891,228
Accounts payable and accrued expenses	$ 579,363	$ 524,754	$ 469,216
Deposits and advance payments for goods and services	274,401	223,880	216,372
Current portion of bonds, notes and lease obligations	640,589	651,984	658,418
Other current liabilities	105,021	87,708	94,883
Total current liabilities	1,599,374	1,488,326	1,438,889
Noncurrent portion of bonds, notes and lease obligations	2,582,017	2,640,142	2,714,842
Net pension liability	2,548,009	3,565,362	2,794,626
Net other post-employment benefits liability	1,249,521	-	-
Advance from concessionaire	1,046,342	-	-
Other noncurrent liabilities	366,344	366,057	401,708
Total noncurrent liabilities	7,792,233	6,571,561	5,911,176
Total liabilities	9,391,607	8,059,887	7,350,065
Deferred inflows	972,224	484,007	599,373
Net investment in capital assets	2,376,795	2,259,207	2,282,647
Restricted:			
Nonexpendable	1,551,278	1,473,074	1,361,274
Expendable	1,328,793	1,190,162	905,520
Unrestricted	81,369	589,384	392,349
Total net position	5,338,235	5,511,827	4,941,790
Total liabilities, deferred inflows and net position	$ 15,702,066	$ 14,055,721	$ 12,891,228

During the year ended June 30, 2018, **cash and temporary investment** balances increased $793 million, to $3.02 billion, primarily due to strong healthcare operating cash flows and upfront proceeds from the energy agreement held for future capital projects. Amounts shown as restricted cash consist primarily of unspent proceeds from the General Receipts Bonds, which are being used to fund various capital projects. Restricted cash balances decreased $101 million, to $565 million at June 30, 2018, reflecting application of bond proceeds to capital projects. The Statement of Cash Flows, which is discussed in more detail below, provides additional information on sources and uses of university cash.

Accounts receivable, net of allowances, increased $43 million, to $619 million at June 30, 2018, primarily due to increases in patient care receivables of the Health System. **Inventories and prepaid expenses** increased $26 million, to $125 million at June 30, 2018, primarily due to increases in Medical Center pharmacy inventories and OARnet (Ohio Academic Resources Network) purchases of software for resale.

The fair value of the university's **long-term investment pool** (LTIP) increased $958 million, to $5.21 billion at June 30, 2018. The increase is primarily due to the investment of $820 million of the upfront proceeds from the energy agreement and $336 million increase in the fair value of LTIP investments. These increases were partially offset by $202 million in distributions. The long-term investment pool operates similar to a mutual fund, in that each named fund is assigned a number of shares in the pool. It includes the gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and unrestricted funds that have been internally designated to function as endowments. The pool is invested in a diversified portfolio of equity and fixed-income securities, partnerships and hedge funds that is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support the university's mission.

The university has established a **securities lending program** through its custodian bank for the long-term investment pool. Securities loaned by the university are secured by collateral in the form of cash, equity, U.S. government obligations, and foreign government/private debt. The portion of this collateral that was received in cash increased $24 million, to $40 million at June 30, 2018, reflecting an increase in securities lending activity in 2018. These balances are reported in the Statement of Net Position as a current asset and a corresponding current liability.

Other long-term investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation and long-term investments of operating funds. These investments increased $20 million, to $164 million, at June 30, 2018.

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $160 million, to $5.04 billion at June 30, 2018. University capital expenditures totaled $498 million in 2018, including $188 million of capital expenditures for the Wexner Medical Center Health System. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 5 years (for computer equipment and software) to 100 years (for certain building components such as foundations). Depreciation expense increased $20 million, to $394 million in 2018.

As part of the long-range plan to redevelop the Mirror Lake District, renovations were completed in the spring of 2018 to Pomerene Hall, Oxley Hall, and Baker Commons to house the translational data analytics and History of Art programs. The $59 million project was funded by more than $50 million in capital grants from the State of Ohio. Smith Laboratory received more than $14 million in electrical and HVAC upgrades. New facilities constructed on regional campuses include a $15 million science and engineering building in Marion, a $14 million residence hall in Newark, and a $5 million student life facility in Lima.

Major infrastructure improvements completed in 2018 included an $11 million project to provide return condensate lines from the James Cancer Center, Jennings Hall, Postle Hall, and Aronoff Laboratory.

In addition, several major construction projects are currently underway or in advanced planning stages, including:

- Postle Hall – Construction is underway on the $98 million project to construct a 130,000 square foot dental facility for student pre-clinical labs and patient clinics, an ambulatory surgery center, a faculty practice, a radiology clinic, and a sterilization facility. The project is slated for completion in the spring of 2020.

- Cannon Drive – The $52 million project between King Avenue and John Herrick Drive will straighten and elevate the road out of the flood plain and create 12 acres of developable land.

- James Cancer Hospital – The $60 million project will build out shelled space on the 10th and 12th floors to create 72 ICU beds and is slated for completion summer of 2018.

- Koffolt and Fontana Labs – This $59 million project will provide approximately 124,000 square feet of research labs, teaching labs, classrooms, and departmental offices for Biomedical Engineering and Materials Science Engineering. The facilities are slated for completion in the fall of 2018.

- Airport Enhancements – The $20 million project will provide for the expansion and modernization of the existing field operations base. The project is in construction phase and is slated for completion in the fall of 2018.

- Covelli Multi-Sport Arena – The $49 million project will construct a new multi-sport arena to house the men's and women's varsity volleyball teams, and fencing, wrestling, and gymnastics matches. The project is in the construction phase and slated for completion in the spring of 2019.

- Schumaker Student-Athlete Development Complex – The $42 million project will construct a state-of-the-art athletic training center for weight training and cardio conditioning for use by most of the university's sports programs and will be complete in the fall of 2018.

- Ohio Stadium Upgrades – The $36 million project includes power upgrades completed in 2018 as well as suite box expansion and renovation, C-Deck restoration, and a suite and loge addition to be completed by the summer of 2019. The project is currently in the construction phase.

- Schottenstein Center-North Expansion and Concourse Renovation -- The $31 million project will renovate the concourse walls and lighting and include an addition to the north end of the facility. The initial phase of the project is slated for completion in fall 2018.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $330 million at June 30, 2018.

Accounts payable and accrued expenses were up $55 million, to $579 million at June 30, 2018, primarily due to increases in retirement system contributions payable (up $30 million) and payables to vendors for supplies and services (up $28 million). **Deposits and advance payments for goods and services** increased $51 million, to $274 million, reflecting increases in unearned revenues related to departmental and auxiliary sales and services (up $17 million primarily due to advance ticket sales for concerts held in Ohio Stadium), advance payments for sponsored programs (up $10 million) and recognition of the current portion of the OSEP advance from concessionaire ($22 million).

On April 10, 2017, the university entered into a 50-year agreement to lease the university's utility system to Ohio State Energy Partners (OSEP) and grant it the exclusive right to operate the utility system and provide utility services to the Columbus campus. On July 6, 2017, the university received an upfront payment of $1.09 billion. The upfront payment is reported as an **advance from concessionaire** and is being amortized as a reduction to operating expense (Operation and Maintenance of Plant) on a straight-line basis over the term of the agreement.

Under the agreement, OSEP operates, maintains and makes capital investments in the utility system and charges the university a Utility Fee, which includes fixed, variable and operating and maintenance (O&M) components. OSEP capital investments in the utility system are recognized as capital assets and a related **long-term payable to the concessionaire**. The fixed and O&M components of the Utility Fee are recognized as operating expense. The variable component of the Utility Fee will be recognized as a reduction in the long-term payable to the concessionaire and interest expense. For the year ended June 30, 2018, the university recognized fixed and O&M utility fees totaling $53 million. The carrying amount of OSEP capital investments and related long-term payable to the concessionaire at June 30, 2018 was $10 million.

University debt, in the form of **bonds, notes and capital lease obligations**, decreased $70 million, to $3.22 billion at June 30, 2018. In December 2017, the university issued $70 million of Series 2017 fixed-rate general receipts bonds. The proceeds of the bond issue were used to refund $80 million of the university's Series 2008A bonds, resulting in an economic savings of $11 million. In addition to the refunding, the university made principal payments on bonds and notes payable totaling $61 million in 2018.

The university's plant debt includes variable rate demand bonds that mature at various dates through 2044. GASB Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the statement of net position classification of these bonds. Under GASB Interpretation 1, outstanding principal balances on variable rate demand bonds may be classified as noncurrent liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. These obligations totaled $588 million at June 30, 2018 and 2017, respectively.

GASB Statement No. 68 requires governmental employers participating in defined benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. In FY2018, the university implemented a related accounting standard, GASB Statement No. 75, which 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 university participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio, and is required to record a liability for its proportionate share of the net pension and OPEB liabilities of the retirement systems.

In 2018, the university's share of OPERS and STRS-Ohio **net pension liabilities** decreased $1.02 billion, to $2.54 billion at June 30, 2018, reflecting reductions in net pension liabilities for both retirement systems. Total net pension liabilities decreased at OPERS primarily due to increases in fiduciary net position -- the OPERS defined benefit investment portfolio had a 16.82% return in calendar year 2017. Total net pension liabilities decreased at STRS-Ohio due to a combination of increases in fiduciary net position (primarily due to a 14.29% investment return in fiscal year 2017) and a reduction in the system's total pension liabilities (primarily due to a reduction in annual cost-of-living adjustments to 0%). Deferred outflows related to pensions decreased $360 million, to $632 million at June 30, 2018. Deferred inflows related to pensions increased $395 million, to $412 million at June 30, 2018. The overall change in pension deferrals relates primarily to deferrals for projected vs. actual returns on pension plan investments. These deferrals will be recognized as pension expense in future periods.

At June 30, 2018, the university's share of OPERS and STRS-Ohio **net OPEB liabilities** was $1.23 billion. In addition, the university recognized deferred outflows and deferred inflows related to OPEB of $88 million and $101 million, respectively. The cumulative effect of adopting GASB Statement No. 75 was a $1.22 billion reduction in the university's net position as of July 1, 2017.

Total pension and OPEB expense recognized by the university was $94 million in 2018. Total pension and OPEB expense includes $336 million of employer contributions, offset by $241 million related to the net decrease in pension and OPEB liabilities year over year.

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 university 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 university's resources, and there are no cash flows associated with the recognition of net pension and OPEB liabilities, deferrals and related expense.

Deferred inflows primarily consist of changes to OPEB and pension liabilities as explained in the previous paragraphs. Other deferred inflows consist primarily of the unamortized proceeds of the parking service concession arrangement. The parking deferred inflows, which totaled $426 million at June 30, 2018, are being amortized to operating revenue on a straight-line basis over the 50-year life of the agreement. The remaining balance of deferred inflows relates to deferred gains on debt-related transactions and deferrals for irrevocable split-interest agreements.

Prior-Year Highlights: ***In 2017*****,** the fair value of the university's long-term investment pool increased $637 million, to $4.25 billion, primarily due to a combination of $494 million in net investment income and a $250 million investment of Wexner Medical Center Health System cash in the pool. Net pension liabilities increased $771 million, to $3.57 billion, reflecting a reduction in the discount rate used by OPERS to calculate the pension liability and lower-than-projected investment returns for STRS-Ohio. ***In 2016***, the university issued $600 million in taxable Fixed Rate General Receipts Bonds and $31 million in tax-exempt Fixed Rate General Receipts Bonds. Net pension liabilities increased $664 million, to $2.79 billion, reflecting increases in actuarial liabilities and decreases in fiduciary net position for both STRS-Ohio and OPERS. Cash and temporary investment balances increased $190 million, to $1.97 billion, primarily due to strong operating margins at the OSU Health System.

Statement of Revenues, Expenses and Other Changes in Net Position

Summary of Revenues, Expenses and Changes in Net Position *(in thousands)*

	2018	2017	2016
Operating Revenues:			
Tuition and fees, net	$ 935,893	$ 927,317	$ 884,805
Grants and contracts	698,847	677,361	630,858
Auxiliary enterprises sales and services, net	328,692	309,497	261,761
OSU Health System sales and services, net	3,103,891	2,853,177	2,625,075
Departmental sales and other operating revenues	183,823	204,091	173,882
Total operating revenues	5,251,146	4,971,443	4,576,381
Operating Expenses:			
Educational and general	1,998,007	2,431,979	2,300,068
Auxiliary enterprises	322,149	313,185	254,137
OSU Health System	2,720,988	2,595,797	2,251,030
Depreciation	394,461	374,615	351,901
Total operating expenses	5,435,605	5,715,576	5,157,136
Net operating loss	(184,459)	(744,133)	(580,755)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	475,593	473,061	456,063
Gifts - current use	168,209	181,212	156,737
Net investment income (loss)	439,154	542,819	(67,043)
Grants, interest expense and other non-operating	(7,614)	(38,131)	(9,503)
Net non-operating revenue	1,075,342	1,158,961	536,254
Income (loss) before other changes in net position	890,883	414,828	(44,501)
State capital appropriations	83,217	68,270	36,381
Private capital gifts	15,470	26,762	10,422
Additions to permanent endowments	55,579	52,458	64,537
Capital contributions and other changes in net position	6,129	7,719	-
Total other changes in net position	160,395	155,209	111,340
Increase in net position	1,051,278	570,037	66,839
Net position - beginning of year	5,511,827	4,941,790	4,891,451
Cumulative effect of accounting change	(1,224,870)	-	(16,327)
Net position - end of year	$ 5,338,235	$ 5,511,827	$ 4,941,964

Net **tuition and fees** increased $9 million, to $936 million in 2018, primarily due to rate increase of 5% for non-resident surcharge, non-resident enrollment up 5.2%, and 5.5% rate increase for incoming freshman. Gross tuition increased $29 million due to non-resident fees of $15 million and instructional fees of $14 million offset by a $20 million increase in scholarship allowance. In 2018, the university introduced the Ohio State Tuition Guarantee for new first-year students, which provides incoming undergraduates with more certainty about college costs by setting rates for in-state tuition, mandatory fees, room and board for four years. For incoming freshmen on the Columbus campus, in-state tuition and mandatory fees increased 5.5%, but those rates will not change during a four-year education. Increases in gross tuition were partially offset by a $20 million increase in scholarship allowances. Total enrollment for the 2017-2018 academic year was up 2.9% over the prior academic year.

Operating **grant and contract revenues** increased $21 million, to $699 million in 2018. The increase relates primarily to grants from the City of Columbus for the Cannon Drive relocation project ($15 million) and Jobs Growth Incentive grants provided to the Health System ($3 million). Other sources of operating grant and contract funding were relatively stable in 2018.

Total **auxiliary revenues** increased $19 million, to $329 million in 2018, primarily due to increases in Big Ten television rights fees paid to Athletics (up $17 million). **Auxiliary expenses** increased $9 million, to $322 million, primarily due to increases in cost of sales and travel in Athletics and dining costs in Student Life.

Educational and general expenses decreased $434 million, or 18%, to $2.00 billion in 2018. Additional details are provided below.

Educational and General Expenses *(in thousands)*	**2018**	**2017**	**2016**
Instruction and departmental research	$ 1,006,057	$ 952,038	$ 978,658
Separately budgeted research	473,463	462,514	435,692
Public service	177,325	162,807	157,119
Academic support	217,086	202,375	201,958
Student services	99,032	100,221	101,300
Institutional support	188,735	158,761	161,288
Operation and maintenance of plant	118,398	89,251	99,218
Scholarships and fellowships	130,363	129,267	120,785
Non-cash accruals for pensions and other postemployment benefits	(412,452)	174,745	44,050
Total educational and general expense	$ 1,998,007	$ 2,431,979	$ 2,300,068

The overall decrease in educational and general expense is related to pension accruals. These accruals are allocated to functional expense lines in the Statement of Revenues, Expenses and Other Changes in Net Position, based on pension-eligible salaries. Excluding the $587 million swing in expenses related to pension accruals, total educational and general expenses increased $153 million in 2018. **Instruction and departmental research** expenses increased $54 million, reflecting increases in salaries and benefits. **Institutional support** expenses increased $30 million, due to a combination of increases in salaries and benefits and $12 million of transaction costs related to the energy agreement. **Operation and maintenance of plant** expenses increased $29 million, primarily due to utility fees paid to OSEP, net of amortization of the upfront payment. Utility fees, net of amortization, totaled $32 million in 2018. The increase associated with OSEP utility fees was partially offset by reductions in electricity costs and repair and maintenance expenses.

Health System operating revenues grew $251 million, to $3.10 billion in 2018. Operating expenses (excluding depreciation, interest and transfers) increased $125 million, to $2.72 billion. An in-depth look at the Health System, as presented in their stand-alone financial statements, is provided below.

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

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

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

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

Total operating revenues grew $253 million, or 8.9% from the prior year. The growth in operating revenues are a result of strong admissions and increased bed capacity as well as increases related to surgical volumes and outpatient activities.

Approximately 93% of total operating revenues are from patient care activities. Other Operating Revenues are composed of items such as reference labs, cafeteria operations, rental agreements and other sources. To ensure appropriate access and education for outpatients, the Health System operates a Retail Pharmacy due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. The Retail Pharmacy contributed $99 million of operating revenues in 2018 and $93 million in 2017. Additionally, in an effort to broaden medical service and patient access to the underserved population, the Health System is enrolled in the 340B drug pricing program. The 340B Drug pricing program is a federal government program that provides prescription drugs at reduced prices to eligible patients through eligible health care organizations and covered entities. The Health System has partnered with area pharmacies to dispense prescription drugs to eligible patients. The 340B Drug pricing program contributed $24 million of operating revenues in 2018. Other Operating Revenues also includes a portion of the margin shared with Nationwide Children's Hospital for the management of the Neonatal Intensive Care Unit located at the Heath System. The goal of this managed unit was to standardize the care and quality outcomes of all the neonatal patients in Central Ohio. The NICU contributed $17 million of operating revenues in 2018 and $16 million in 2017.

Operating expenses increased $183 million, or 7.0% from 2017 to 2018. The increase in salaries and benefits from 2017 to 2018 is reflective of the increased salaries and a larger workforce due to the additional volumes related to increased bed capacity at University Hospital and the Brain and Spine Hospital as well as continued growth at the James Cancer Hospital and Ambulatory locations. The increase in admissions and beds capacity, strong surgical volumes, as well as strong outpatient pharmacy volume at the James Cancer contributed to the increase in supplies and drugs. The increase in supplies and drugs also includes higher volumes at the Retail Pharmacy and new volume related to the 340B drug pricing program including drug purchases for the partnerships with area pharmacies to dispense prescription drugs to eligible patients. The increase in purchased services from 2017 to 2018 is reflective of increased preventive maintenance costs for information technology and medical equipment as well as an increase in franchise fee for the hospitals, advertising and recruitment. Depreciation increased due to additional equipment purchased for growing capacity at University Hospital and the Brain and Spine Hospital.

Income before other changes in net position was $271 million in 2018 compared to $215 million in 2017. Impacts to income before other changes in net position include pension expense of $117 million in 2018 compared to $168 million in 2017 reflecting annual accounting for GASB 68. Additionally, OPEB expense was $41 million in 2018 reflecting annual accounting for GASB 75. Income before other changes in net position for clinical activities was $430 million in 2018, compared to $383 million in 2017. The increase in income before other changes in net position is due to increased admissions and bed capacity, increased pharmaceutical activity, a strong patient mix, and maintaining expenses in line with activities throughout the Health System.

The Health System's other changes in net position for fiscal year 2018 includes Medical Center Investments of $150 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $145 million in 2017. Additionally, other changes in net position in 2018 and 2017 include capital contributions of $19 million and $18 million, respectively, for hospital projects and capital acquisitions.

The Health System will continue to respond to the challenges and opportunities of healthcare reform, which expanded health insurance coverage through Medicaid expansion as well as creating health exchanges that offer affordable health insurance options. The Health System will continue creating an innovative healthcare delivery model to deliver high value care with an unparalleled patient experience and access. The Health System continues to effectively control and reduce costs of supplies through standardization and strategic sourcing. Cost control will be the most significant challenge facing healthcare and the Health System has established the foundation for effective use of resources.

Revenues and operating expenses of **OSU Physicians, Inc.** (OSUP), the University's central practice group for physician faculty members of the College of Medicine and Public Health, continued to grow in 2018. Total consolidated operating revenues increased $29 million, to $525 million, reflecting increases in patient volumes. Total consolidated OSUP expenses (excluding depreciation and interest) increased $40 million to $484 million in 2018. These figures are included in the Discretely Presented Component Units columns of the university's financial statements.

Total state operating support was relatively stable in 2018, increasing $3 million, to $476 million. **State share of instruction** increased $4 million, to $389 million. **State line-item appropriations** decreased $1 million, to $87 million.

State capital appropriations increased $15 million, to $83 million in 2018, primarily due to increases in spending on the Pomerene Oxley Hall renovation ($11 million) and the Postle Hall renovation ($5 million).

Total **gifts** to the university decreased $21 million, to $239 million in 2018 due to the end of the *But for Ohio State* fundraising campaign in fiscal year 2017. Decreases in current use and capital gifts were partially offset by a $3 million increase in endowment gifts. Several colleges and support units received gifts in excess of $1 million in 2018, including Veterinary Medicine, the Comprehensive Cancer Center, the Cancer Hospital and Research Institute, the College of Medicine, the College of Arts and Sciences, the School of Music, the College of Engineering, the College of Nursing, WOSU Public Media, the Mansfield Campus and the Department of Athletics. During 2018, nearly 270,000 alumni and friends made gifts to the university, up from 267,000 in 2017.

University investments yielded $439 million of **net investment income** in 2018, down from $543 million in 2017. In 2018, the university implemented a change in presentation for investment management expenses. These expenses -- which totaled $64 million and $55 million in 2018 and 2017, respectively, and had previously been reported as Institutional Support expense -- are now being netted against investment income. University management determined that the use of this acceptable alternative accounting presentation is preferable because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns.

The fiscal year saw volatility return to the financial markets over concerns of tighter U.S. monetary policy creating a flatter yield curve, the ten-year treasury reaching a 3% yield, U.S. partisan politics, nuclear tensions with North Korea, a strong U.S. dollar, increasing world oil prices and trade policy disruptions with China, Europe and the North American Free Trade Agreement. Offsetting this backdrop was an impactful U.S. fiscal policy, tax reform and deregulation leading to high business confidence, higher corporate earnings, repatriation of corporate cash, rising tax receipts, corporate stock buybacks and rising capex, all supported an improving corporate environment and a strong U.S. real economy. The S&P 500 Index responded with a +14.4% return for the fiscal year. Solid U.S. employment with increasing 401k values led to higher consumer confidence and helped support the U.S. consumer centric economy. The Barclays U.S. Aggregate Bond index returned -0.4% reflecting a relatively flat year for the broader U.S. bond market. The U.S. Federal Reserve separated itself from other world central banks by making the first major move to raise interest rates, which was not followed by other central banks due to weaker international economies. The All Country World Equity Index-excluding the US, which represents the world equity indexes excluding the U.S., returned a lower +7.8%, reflecting their less than robust economies.

The university's long-term investment pool (LTIP) returned +7.7% for the fiscal year ending June 30, 2018. The LTIP outperformed on a relative basis to each of its individual benchmarks for two of its three major asset classes; global equities and fixed income, while real assets underperformed. The LTIP is a diversified portfolio of investments designed to provide steady growth in a risk controlled structure.

Prior-Year Highlights: ***In 2017*****,** OSU Health System consolidated operating revenues increased $228 million, to $2.85 billion, reflecting continued volume growth for both inpatient and outpatient services. Auxiliary revenues increased $48 million, to $309 million, primarily due to increases in the number of beds in the North Residential District and additional meal plans sold to second-year students, who are now required to live in the campus dorms. Educational and general expenses increased $129 million, to $2.49 billion, primarily due to GASB 68 pension accruals. ***In 2016***, OSU Health System operating revenues increased $267 million, to $2.63 billion, reflecting additional volumes related to the Medical Center Expansion and the new James Cancer Hospital (2016 was the first full fiscal year of operations for these facilities). Educational and general expenses increased $121 million, to $2.36 billion. Approximately $64 million of the overall increase in E&G expense was related to GASB 68 pension accruals. University investments yielded a $67 million net investment loss.

Statement of Cash Flows

University Cash Flows Summary *(in thousands)*	2018	2017	2016
Net cash flows from (used in) operating activities	$ 1,053,673	$ (45,720)	$ (117,350)
Net cash flows from noncapital financing activities	764,223	787,986	752,926
Capital appropriations and gifts for capital projects	94,627	82,982	46,511
Proceeds from capital debt	73,885	6,430	618,242
Payments for purchase or construction of capital assets	(497,962)	(414,606)	(428,966)
Principal and interest payments on capital debt and leases, net of federal Build America Bond interest subsidies	(256,514)	(192,914)	(190,501)
Net cash flows used in investing activities	(505,508)	(238,980)	(359,070)
Net increase (decrease) in cash	$ 726,424	$ (14,822)	$ 321,792

University cash and cash equivalents increased $726 million in 2018. Net cash flows from operating and non-capital financing activities increased $1.08 billion, to $1.82 billion, primarily due to the receipt of the $1.09 billion upfront payment from OSEP. Total cash used by capital financing activities was $586 million, reflecting capital expenditures and payments for debt service. Total cash used by investing activities was $506 million, reflecting net purchases of long-term investments.

Economic Factors That Will Affect the Future

Guided by our strategic plan, Ohio State is investing in major initiatives to advance our mission as a flagship public research university.

The university's focus on operational excellence and resource stewardship has created dedicated funding sources to support new affordability measures, teaching excellence programs and other commitments to our academic mission.

For example, Ohio State has generated more than $112 million in efficiency savings since fiscal 2015 for academic initiatives, and the university has invested $820 million in proceeds from the Comprehensive Energy Management into endowments that provide ongoing support for strategic academic priorities.

Likewise, the Wexner Medical Center continues to generate margin improvement through operational efficiencies and revenue growth. The health system plans to reinvest these funds in patient care and in capital planning to support growing demand, including a new inpatient hospital, expanded ambulatory facilities and an integrated health sciences facility. Supporting this growth, the College of Medicine has embarked on a hiring plan that will bring 500 new biomedical sciences faculty — 350 clinicians and 150 research scientists — to the university over five years.

Three programs launching in fiscal year 2019 highlight the university's approach on other academic priorities:

- The **Buckeye Opportunity Program**. This affordability initiative provides financial aid to cover the cost of tuition and mandatory fees for in-state students who qualify for Pell Grants. This unprecedented program, which supports an estimated 4,200 students across all Ohio State campuses, is funded with an endowment created from energy proceeds.

- The **Digital Flagship.** Ohio State's comprehensive digital learning initiative has provided more than 11,000 first-year students with an IPad Pro and related tools for the 2018-19 academic year. The initiative also includes support for faculty interested in utilizing technology in the classroom, the development of new university apps and economic development opportunities. The university is funding the program using efficiency savings.

- The **Teaching Support Program**. The university is making a major commitment to teaching excellence through this three-part professional development program. More than 4,000 faculty members may take an inventory to analyze their current practices, complete online models to explore new approaches in the classroom and redesign their instructional practices. This program is primarily funded through innovative funding sources, including an energy endowment.

Ohio State is also continuing innovative programs to enhance access, affordability and excellence for our students. Since fiscal 2015, the university has committed more than $100 million in additional need-based aid for Ohio residents while also enhancing cost transparency for families.

The 2018-19 academic year is the second for the Ohio State Tuition Guarantee, which offers incoming in-state students certainty about the cost of a college education by freezing rates for tuition, mandatory fees, room and board for four years. For students who began prior to the guarantee, in-state tuition has not increased since fiscal 2013.

Starting in Spring Semester 2019, the university is also simplifying fees and enhancing educational opportunities for students through four fee initiatives that will save students up to $1.9 million a year. Ohio State will eliminate 278 course fees, pilot a digital textbook program that will reduce student costs by 75 percent to 80 percent, waive additional tuition costs for eligible students who take heavy loads and broaden our policy that offers in-state tuition to military families.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the university, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the university expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The university does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

THE OHIO STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2018 and June 30, 2017
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
ASSETS AND DEFERRED OUTFLOWS:						
Current Assets:						
Cash and cash equivalents	$ 1,412,728	$ 584,928	$ 136,098	$ 125,725	$ 1,548,826	$ 710,653
Temporary investments	1,610,826	1,645,681	4,845	9,216	1,615,671	1,654,898
Accounts receivable, net	619,310	575,875	53,277	47,736	672,587	623,611
Notes receivable - current portion, net	25,231	25,231	86	84	25,317	25,315
Pledges receivable - current portion, net	29,524	33,718	-	-	29,524	33,718
Accrued interest receivable	23,454	20,058	-	-	23,454	20,057
Inventories and prepaid expenses	125,289	99,223	4,592	3,628	129,881	102,851
Investments held under securities lending program	39,510	15,949	-	-	39,510	15,949
Amounts due from (to) primary institution	(16,986)	(12,665)	16,986	12,665	-	-
Total Current Assets	3,868,886	2,987,998	215,884	199,054	4,084,770	3,187,052
Noncurrent Assets:						
Restricted cash	564,656	666,032	-	-	564,656	666,032
Notes receivable, net	41,118	35,723	2,548	2,664	43,666	38,387
Pledges receivable, net	70,901	72,350	-	-	70,901	72,350
Long-term investment pool	5,211,434	4,253,459	-	-	5,211,434	4,253,459
Other long-term investments	163,946	143,638	1,481	1,550	165,427	145,188
Capital assets, net	5,043,222	4,883,584	134,559	122,167	5,154,803	4,982,987
Total Noncurrent Assets	11,095,277	10,054,786	138,588	126,381	11,210,887	10,158,403
Total Assets	14,964,163	13,042,784	354,472	325,435	15,295,657	13,345,455
Deferred Outflows:						
Pension	631,606	991,559	45	155	631,651	991,714
Other post-employment benefits	87,904	-	11	-	87,915	-
Other deferred outflows	18,393	21,378	-	-	18,393	21,378
Total Deferred Outflows	737,903	1,012,937	56	155	737,959	1,013,092
Total Assets and Deferred Outflows	$ 15,702,066	$ 14,055,721	$ 354,528	$ 325,590	$ 16,033,616	$ 14,358,547
LIABILITIES, DEFERRED INFLOWS AND NET POSITION:						
Current Liabilities:						
Accounts payable and accrued expenses	$ 579,363	$ 524,754	$ 24,049	$ 25,204	$ 603,410	$ 549,958
Deposits and advance payments for goods and services	274,401	223,880	2,094	1,718	276,496	225,598
Current portion of bonds, notes and leases payable	52,229	63,624	1,322	946	53,551	64,570
Long-term bonds payable, subject to remarketing	588,360	588,360	-	-	588,360	588,360
Liability under securities lending program	39,510	15,949	-	-	39,510	15,949
Other current liabilities	88,850	93,357	-	-	88,850	93,357
Amounts due to (from) primary institution - current	(23,339)	(21,598)	23,339	21,598	-	-
Total Current Liabilities	1,599,374	1,488,326	50,804	49,466	1,650,177	1,537,792
Noncurrent Liabilities:						
Bonds, notes and leases payable	2,582,017	2,640,142	21,042	15,738	2,603,059	2,655,880
Concessionaire payable	10,316	-	-	-	10,316	-
Net pension liability	2,548,009	3,565,362	236	382	2,548,245	3,565,744
Net other post-employment benefit liability	1,249,521	-	153	-	1,249,674	-
Compensated absences	170,225	164,594	-	-	170,225	164,594
Self-insurance accruals	74,139	81,239	-	-	74,139	81,239
Amounts due to third-party payors - Health System	44,909	38,032	-	-	44,909	38,032
Irrevocable split-interest agreements	29,378	30,689	-	-	29,378	30,689
Refundable advances for Federal Perkins loans	32,638	31,714	-	-	32,638	31,714
Advance from concessionaire	1,046,342	-	-	-	1,046,342	-
Other noncurrent liabilities	91,944	101,486	23,019	23,566	91,987	102,288
Amounts due to (from) primary institution - noncurrent	(87,205)	(81,697)	87,205	81,697	-	-
Total Noncurrent Liabilities	7,792,233	6,571,561	131,655	121,383	7,900,912	6,670,180
Total Liabilities	9,391,607	8,059,887	182,459	170,849	9,551,089	8,207,972
Deferred Inflows:						
Parking service concession arrangement	426,176	435,807	-	-	426,176	435,807
Pension	411,768	16,342	41	10	411,809	16,352
Other post-employment benefits	100,500	-	11	-	100,511	-
Other deferred inflows	33,780	31,858	-	-	33,779	31,858
Total Deferred Inflows	972,224	484,007	52	10	972,275	484,017
Net Position:						
Net investment in capital assets	2,376,795	2,259,207	111,779	105,430	2,488,574	2,364,637
Restricted:			-	-		
Nonexpendable	1,551,278	1,473,074	-	-	1,551,278	1,473,074
Expendable	1,328,793	1,190,162	-	-	1,328,793	1,190,162
Unrestricted	81,369	589,384	60,238	49,301	141,607	638,685
Total Net Position	5,338,235	5,511,827	172,017	154,731	5,510,252	5,666,558
Total Liabilities, Deferred Inflows and Net Position	$ 15,702,066	$ 14,055,721	$ 354,528	$ 325,590	$ 16,033,616	$ 14,358,547

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

THE OHIO STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET POSITION

Years ended June 30, 2018 and June 30, 2017
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2018	2017	2018	2017	2018	2017
Operating Revenues:						
Student tuition and fees (net of scholarship allowances of $199,405 and $179,071, respectively	$ 935,893	$ 927,317	$ -	$ -	$ 935,893	$ 927,317
Federal grants and contracts	328,410	324,462	13,612	12,517	342,022	336,979
State grants and contracts	78,676	77,139	-	-	78,676	77,139
Local grants and contracts	38,929	21,427	-	-	38,929	21,427
Private grants and contracts	252,832	254,333	44,577	47,182	297,409	301,515
Sales and services of educational departments	152,495	145,994	9,469	8,935	161,964	154,929
Sales and services of auxiliary enterprises (net of scholarship allowances of $34,274 and $31,106, respectively	328,692	309,497	-	-	328,692	309,497
Sales and services of the OSU Health System, net	3,103,891	2,853,177	-	-	3,103,891	2,844,327
Sales and services of OSU Physicians, Inc., net	-	-	525,796	496,364	525,796	496,364
Other operating revenues	31,328	58,097	-	-	31,328	58,097
Total Operating Revenues	5,251,146	4,971,443	593,454	564,998	5,844,600	5,527,591
Operating Expenses:						
Educational and General:						
Instruction and departmental research	811,123	1,006,411	8,934	6,081	820,057	1,012,492
Separately budgeted research	300,952	497,508	19,331	21,566	320,283	519,074
Public service	137,120	175,101	9,891	10,780	147,011	185,881
Academic support	182,452	222,043	-	-	182,452	222,043
Student services	105,760	108,041	-	-	105,760	108,041
Institutional support	210,691	198,119	22,789	17,360	233,480	215,479
Operation and maintenance of plant	123,625	94,687	3,101	7,489	126,726	102,176
Scholarships and fellowships	126,284	130,069	-	-	126,284	130,069
Auxiliary enterprises	322,149	313,185	-	-	322,149	313,185
OSU Health System	2,720,988	2,595,797	-	-	2,720,988	2,595,797
OSU Physicians, Inc.	-	-	484,132	444,361	484,132	444,361
Depreciation	394,461	374,615	7,674	7,138	402,135	381,753
Total Operating Expenses	5,435,605	5,715,576	555,852	514,775	5,991,457	6,230,351
Net Operating Income (Loss)	(184,459)	(744,133)	37,602	50,223	(146,857)	(702,760)
Non-operating Revenues (Expenses):						
State share of instruction and line-item appropriations	475,593	473,061	-	-	475,593	473,061
Federal subsidies for Build America Bonds interest	10,574	10,561	-	-	10,574	10,561
Federal non-exchange grants	59,272	54,962	-	-	59,272	54,962
State non-exchange grants	11,422	9,434	-	-	11,422	9,434
Gifts	168,209	181,212	-	-	168,209	181,212
Net investment income (loss)	439,154	542,819	1,239	481	440,393	543,300
Interest expense on plant debt	(116,489)	(121,071)	(891)	(1,584)	(117,380)	(122,655)
Other non-operating revenues (expenses)	27,607	7,983	(20,522)	(30,768)	7,085	(13,934)
Net Non-operating Revenue	1,075,342	1,158,961	(20,174)	(31,871)	1,055,168	1,135,941
Income (Loss) before Other Changes in Net Position	890,883	414,828	17,428	18,352	908,311	433,181
Other Changes in Net Position						
State capital appropriations	83,217	68,270	-	-	83,217	68,270
Private capital gifts	15,470	26,762	-	-	15,470	26,761
Additions to permanent endowments	55,579	52,458	-	-	55,579	52,458
Capital contributions and other changes in net position	6,129	7,719	-	-	6,129	7,719
Total Other Changes in Net Position	160,395	155,209	-	-	160,395	155,208
Increase in Net Position	1,051,278	570,037	17,428	18,352	1,068,706	588,389
Net Position - Beginning of Year:						
Beginning of year, as previously reported	5,511,827	4,954,013	154,731	136,379	5,666,558	5,090,392
Cumulative effect of accounting changes	(1,224,870)	(12,223)	(142)	-	(1,225,012)	(12,223)
Beginning of Year, as restated	4,286,957	4,941,790	154,589	136,379	4,441,546	5,078,169
Net Position - End of Year	$ 5,338,235	$ 5,511,827	$ 172,017	$ 154,731	$ 5,510,252	$ 5,666,558

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

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and June 30, 2017
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Cash Flows from Operating Activities:						
Tuition and fee receipts	$ 824,050	$ 808,684	$ -	$ -	$ 824,050	$ 808,684
Grant and contract receipts	707,591	688,946	59,288	61,254	766,879	750,200
Receipts for sales and services	3,551,804	3,250,797	524,443	517,885	4,076,247	3,759,832
Receipt from energy concessionaire	1,089,914	-	-	-	1,089,914	-
Payments to or on behalf of employees	(2,379,815)	(2,235,761)	(353,956)	(324,012)	(2,733,771)	(2,559,773)
University employee benefit payments	(600,854)	(594,859)	(84,429)	(78,703)	(685,283)	(673,562)
Payments to vendors for supplies and services	(2,056,435)	(1,889,212)	(105,265)	(108,548)	(2,161,700)	(1,997,760)
Payments to students and fellows	(121,853)	(121,109)	-	-	(121,853)	(121,109)
Student loans issued	(9,979)	(9,305)	-	-	(9,979)	(9,305)
Student loans collected	8,804	10,166	-	-	8,804	10,166
Student loan interest and fees collected	1,848	1,369	-	-	1,848	1,369
Other receipts	38,598	44,564	-	-	38,598	44,564
Net cash provided (used) by operating activities	1,053,673	(45,720)	40,081	67,876	1,093,754	13,306
Cash Flows from Noncapital Financing Activities:						
State share of instruction and line-item appropriations	475,593	473,061	-	-	475,593	473,061
Non-exchange grant receipts	70,694	64,396	-	-	70,694	64,396
Gift receipts for current use	172,973	188,579	-	-	172,973	188,579
Additions to permanent endowments	55,579	52,458	-	-	55,579	52,458
Drawdowns of federal direct loan proceeds	328,892	322,405	-	-	328,892	322,405
Disbursements of federal direct loans to students	(343,209)	(323,813)	-	-	(343,209)	(323,813)
Repayment of loans from related organization	880	667	-	-	880	667
Amounts received from irrevocable split-interest agreements	153	2,567	-	-	153	2,567
Amounts paid to annuitants and life beneficiaries	(1,733)	(1,700)	-	-	(1,733)	(1,700)
Agency funds receipts	5,386	4,893	-	-	5,386	4,893
Agency funds disbursements	(4,894)	(4,645)	-	-	(4,894)	(4,645)
Other receipts (payments)	3,909	9,118	(14,388)	(17,169)	(10,479)	799
Net cash provided (used) by noncapital financing activities	764,223	787,986	(14,388)	(17,169)	749,835	779,667
Cash Flows from Capital Financing Activities:						
Proceeds from capital debt	73,885	6,430	6,854	150	80,739	6,580
State capital appropriations	80,238	67,662	-	-	80,238	67,662
Gift receipts for capital projects	14,389	15,320	-	-	14,389	15,320
Payments for purchase or construction of capital assets	(497,962)	(414,606)	(26,160)	(21,254)	(524,122)	(435,860)
Proceeds from sale of capital assets	-	-	-	9,172	-	9,172
Principal payments on capital debt and leases	(145,060)	(79,528)	(796)	(1,058)	(145,856)	(80,586)
Interest payments on capital debt and leases	(122,376)	(124,267)	(897)	(458)	(123,273)	(124,725)
Federal subsidies for Build America Bonds interest	10,922	10,881	-	-	10,922	10,881
Net cash provided (used) by capital financing activities	(585,964)	(518,108)	(20,999)	(13,448)	(606,963)	(531,556)
Cash Flows from Investing Activities:						
Net (purchases) sales of temporary investments	26,067	(137,323)	4,371	(2,166)	30,438	(139,489)
Proceeds from sales and maturities of long-term investments	2,361,342	1,866,011	69	3,215	2,361,411	1,869,226
Investment income, net of related expenses	96,521	68,405	1,239	416	97,760	68,821
Purchases of long-term investments	(2,989,438)	(2,036,073)	-	-	(2,989,438)	(2,036,073)
Net cash provided (used) by investing activities	(505,508)	(238,980)	5,679	1,465	(499,829)	(237,515)
Net Increase (Decrease) in Cash	726,424	(14,822)	10,373	38,724	736,797	23,902
Cash and Cash Equivalents - Beginning of Year	1,250,960	1,265,782	125,725	87,001	1,376,685	1,352,783
Cash and Cash Equivalents - End of Period	$ 1,977,384	$ 1,250,960	$ 136,098	$ 125,725	$ 2,113,482	$ 1,376,685

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS, Cont'd
Years Ended June 30, 2018 and June 30, 2017
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Reconciliation of Net Operating Income (Loss) to Net Cash Used by Operating Activities:						
Operating income (loss)	$ (184,459)	$ (744,133)	$ 37,602	$ 50,223	$ (146,857)	$ (702,760)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	394,461	374,615	7,674	7,138	402,135	381,753
Impairment and demolition expense	-	-	-	1,675	-	1,675
Changes in assets and liabilities:						
Accounts receivable, net	(26,424)	(52,801)	(5,541)	5,044	(31,965)	(47,757)
Notes receivable, net	(4,055)	861	114	473	(3,941)	1,334
Accrued interest receivable	(39)	(344)	-	-	(39)	(344)
Inventories and prepaid expenses	(26,066)	12,165	(964)	156	(27,030)	12,321
Amounts due to/from primary institution	(2,928)	(15,128)	(3,581)	2,450	(6,509)	(12,678.18)
Deferred outflows	272,049	(315,850)	99	(31)	272,148	(315,881)
Accounts payable and accrued liabilities	47,859	57,049	4,939	1,154	52,798	58,203
Self-insurance accruals	(7,100)	(13,377)	-	-	(7,100)	(13,377)
Amounts due to third-party payors - Health System	6,877	(4,713)	-	-	6,877	(4,713)
Deposits and advanced payments	49,077	2,932	375	(21,606)	49,452	(18,674)
Compensated absences	5,631	4,720	-	-	5,631	4,720
Refundable advances for Federal Perkins loans	924	(396)	-	-	924	(396)
Advance from concessionaire	1,046,342	-	-	-	1,046,342	-
Net pension liability	(1,017,353)	770,736	(146)	16	(1,017,499)	770,752
Net other post-employment benefit liability	24,651	-	11	-	24,662	-
Deferred inflows	486,295	(117,453)	42	2	486,337	(117,451)
Other liabilities	(12,069)	(4,603)	(543)	21,182	(12,612)	16,579
Net cash provided (used) by operating activities	$ 1,053,673	$ (45,720)	$ 40,081	$ 67,876	$ 1,093,754	$ 13,306
Non Cash Transactions:						
Construction in process in accounts payable	$ 43,852	$ 17,442	$ 1,494	$ 7,377	$ 45,346	$ 24,819
Construction in process in concessionaire payable	10,316	-	-	-	10,316	-
Capital lease	10,508	6,430	-	-	10,508	6,430
Stock gifts	18,238	21,723	-	-	18,238	21,723
Net increase in fair value of investments	341,400	477,006	77	225	341,477	477,231

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

The Ohio State University (the "university") is a land grant institution created in 1870 by the Ohio General Assembly under provisions of the Morrill Act. The university is one of several state-supported universities in Ohio. It is declared by statute to be a body politic and corporate and an instrumentality of the State.

The university is governed by a Board of Trustees which is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the university. Trustees are appointed by the governor, with the advice and consent of the state Senate. In 2005, the Ohio General Assembly voted to expand the Board from 11 to 17 members. The standard term for voting members of the Board is nine years. The Board also includes two non-voting student trustees who are appointed to two-year terms.

In 2009, the Board appointed its first charter trustee, which expanded the Board to 18 members. A maximum of three charter trustees may be appointed and removed by a vote of the Board. Charter trustees, who must be non-Ohio residents, are appointed to three-year terms and do not have voting privileges.

The Board of Trustees has responsibility for all the university's financial affairs and assets. The university operates largely on a decentralized basis by delegating this authority to its academic and support departments. The Board must approve the annual budgets for unrestricted academic and support functions, departmental earnings operations and restricted funds operations, but these budgets are managed at the department level.

Basis of Presentation

The accompanying financial statements present the accounts of the following entities, which constitute the primary government for financial reporting purposes:

- The Ohio State University and its hospitals and clinics
- Ohio Agricultural Research and Development Center
- The Ohio Technology Consortium (OH-TECH)

In addition, these financial statements include component units -- legally separate organizations for which the university is financially accountable. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus* and Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

- Appointment of a voting majority of an organization's governing authority and the ability of the primary government (i.e. the university) to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or;

- An organization is fiscally dependent on the primary government and provides specific financial benefits to, or imposes specific financial burdens on, the primary government.

The university's component units and the reasons for their inclusion in the university's financial statements are described below:

- **The Ohio State University Foundation** – The fiscal dependency criteria apply to this not-for-profit fundraising organization, which operates exclusively for the benefit of The Ohio State University.
- **OSU Health Plan, Inc.** – The university appoints a voting majority of the board for this organization, which provides medical benefit plan administration services to the university and its faculty and staff.
- **Oval Limited** – The university holds all of the voting stock of this captive insurance entity, which was established by the university to provide medical malpractice coverage to physicians in the university's medical center.

The component units listed above provide services entirely, or almost entirely, to the university or otherwise exclusively, or almost exclusively, benefit the university. Therefore, the transactions and balances for these organizations have been blended with those of the primary government, collectively referred to as the primary institution.

In addition to the blended component units described above, the university's financial statements include the following discretely presented component units:

- **The Ohio State University Physicians, Inc.** – The university appoints a voting majority of the board of the medical practice group for physician faculty members in the Colleges of Medicine and Public Health.
- **Campus Partners for Community Urban Redevelopment, Inc**. – This non-profit organization, which participates in the redevelopment of neighborhoods adjacent to the Columbus campus, is fiscally dependent on the university.
- **Transportation Research Center of Ohio, Inc.** – The university appoints a voting majority of the board for this automotive research and testing facility in East Liberty, Ohio.
- **Dental Faculty Practice Association, Inc.** – The university appoints a voting majority of the board for the dental practice group for faculty in the College of Dentistry.

Summary financial statement information for the university's blended and discretely presented component units is provided in Notes 20 and 21. Audited financial statements for the discretely presented component units considered to be material to the university may be obtained from the Office of the Controller. A total university column in the financial statements is provided as memorandum only for purposes of additional analysis by users. The total university column reflects eliminations of transactions between the primary institution and the discretely component units. These transactions consist primarily of (a) discretionary subsidies and contributions which are presented as either non-operating activities or capital additions at the component unit level and (b) exchange-based goods and services that support the operations of the entity, which are presented as operating revenues and expenses at the component unit level. The impact of these transactions on the statement of revenues, expenses and other changes in net position was $0 and $8,850 for the years ended June 30, 2018 and 2017, respectively.

The university, as a component unit of the State of Ohio, is included as a discrete entity in the State of Ohio's Comprehensive Annual Financial Report.

Basis of Accounting

The financial statements of the university have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The university is reporting as a special purpose government engaged in business type activities (BTA) on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, the university presents Management's Discussion and Analysis; Statements of Net Position; Statements of Revenues, Expenses and Other Changes in Net Position; Statements of Cash Flows; and Notes to the Financial Statements. In the financial statements, separate columns are presented for the *primary institution* (which includes the primary government and the blended component units), *discretely presented component units* and the *total university*. The Notes to the Financial Statements include separate disclosures for the primary institution and the discretely presented component units, where relevant and material. Unless otherwise specified, the amounts presented in MD&A are those of the primary institution.

The university's financial resources are classified for accounting and reporting purposes into the following four net position categories:

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

- **Restricted - nonexpendable:** Amounts 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. These assets primarily consist of the university's permanent endowments.

- **Restricted - expendable:** Amounts whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Amounts which are not subject to externally-imposed stipulations. Substantially all unrestricted balances are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment.

Under the university's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

For internal financial management purposes, the university classifies financial resources into funds that reflect the specific activities, objectives or restrictions of the resources.

Cash and Investments

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Government obligations, U.S. Agency obligations, repurchase agreements and money market funds. Restricted cash consists of bond proceeds restricted for capital expenditures. For purposes of the Statement of Cash Flows, "cash" is defined as the total of these two line items.

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended by GASB Statement No. 72, *Fair Value Measurement and Application*. The average cost method is used for purposes of determining gains and losses on the sale of investments. The specific identification method is used for purposes of determining gains and losses on the sale of gifted securities.

The university holds investments in limited partnerships, private equity and other investments, which are carried at estimated fair value provided by the management of these limited partnerships. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Investments in these limited partnerships are fair valued based on the university's proportional share of the net asset value of the total fund. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. As of June 30, 2018, the university has made commitments to limited partnerships totaling $1,258,781 that have not yet been funded. These commitments may extend for a maximum of ten years.

Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

Endowment Policy

All endowments are invested in the university's Long Term Investment Pool, which consists of 5,626 Board authorized funds and 285 pending funds. Each named fund is assigned a number of shares in the Long Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Ohio, permits the university's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems 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 classified as restricted-expendable, unless otherwise restricted by the donor.

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 fair value per share of the Long Term Investment Pool over the most recent seven year period.

At June 30, 2018, the fair value of the university and Foundation gifted endowments is $2,062,986, which is $387,387 above the historical dollar value of $1,675,599. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2018, there are 1,127 named funds that remain underwater. The fair value of these underwater funds at June 30, 2018 is $373,891, which is $35,116 below the historical dollar value of $409,007.

At June 30, 2017, the fair value of the university and Foundation gifted endowments is $1,939,582, which is $327,343 above the historical dollar value of $1,612,239. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2017, there are 1,347 named funds that remain underwater. The fair value of these underwater funds at June 30, 2017 is $492,695, which is $47,823 below the historical dollar value of $540,518.

The depreciation on non-expendable endowment funds is recorded as a reduction to restricted non-expendable net position. Recovery on these funds is recorded as an increase in restricted non-expendable up to the historical value of each fund. Per UPMIFA (§ 1715.53(D)(C), the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

Gift Pledges Receivable

The university receives pledges and bequests of financial support from corporations, foundations and individuals. 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 Non-exchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Inventories

The university's inventories, which consist principally of publications, general stores and other goods for resale by earnings operations, are valued at the lower of moving average cost or market. The inventories of the Health System, which consist principally of pharmaceuticals and operating supplies, are valued at cost on a first-in, first-out basis.

Capital Assets and Collections

Capital assets are long-life assets in the service of the university and include land, buildings, improvements, equipment, software and library books. Capital assets are stated at cost or acquisition value at date of gift. Depreciation of capital assets (excluding land and construction in progress) is provided on a straight-line basis over the following estimated useful lives:

Type of Asset	Estimated Useful Life
Improvements other than buildings	20 years
Buildings	10 to 100 years
Moveable equipment, software and furniture	5 to 15 years
Library books	10 years

The university does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Advance Payments for Goods and Services

Advance payments for goods and services primarily consist of receipts relating to tuition, room, board, grants, contracts and athletic events received in advance of the services to be provided. Tuition and fees relating to the summer academic term are recorded as revenue in the year to which they pertain. The university will recognize revenue to the extent these services are provided over the coming fiscal year.

Derivative Instruments

The university accounts for all derivative instruments on the statement of net position at fair value. Changes in the fair value (i.e., gains or losses) of the university's interest rate swap instruments and futures instruments are recorded each period in the statement of revenues, expenses and other changes in net position as a component of other non-operating expense.

Operating and Non-Operating Revenues and Expenses

The university defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses, and Other Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness and certain expenses related to investments, substantially all university expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, current-use gifts and net investment income.

Tuition, Room and Board

Student tuition and residence hall fees are presented net of scholarships and fellowships applied to student accounts. Stipends and other payments made directly to students are presented as scholarship and fellowship expense. Fee authorizations provided to graduate teaching, research and administrative associates as part of an employment arrangement are presented in instruction, research and other functional categories of operating expense.

State Support

The university is a state-assisted institution of higher education which receives a student enrollment-based instructional subsidy from the State of Ohio. This subsidy, which is based upon a formula devised by the Ohio Board of Regents, is determined annually and is adjusted to state resources available.

The state also provides line-item appropriations which partially support the current operations of various activities, which include clinical teaching expenditures incurred at The Ohio State University Health System and other health sciences teaching facilities, The Ohio State University Extension, the Ohio Agricultural Research and Development Center, and the Center for Labor Research.

In addition to current operating support, the State of Ohio provides the funding for and constructs major plant facilities on the university's campuses, and this funding is recorded as state capital appropriations. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC) which, in turn, initiates the construction and subsequent lease of the facility by the Ohio Board of Regents.

Such facilities are reflected as buildings or construction in progress in the accompanying statement of net position. Neither the obligations for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the university's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly.

These facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund and future payments to be received by such fund, which is established in the custody of the Treasurer of State.

Government Grants and Contracts

Government grants and contracts normally provide for the recovery of direct and indirect costs and are subject to audit by the appropriate government agency. Federal funds are subject to an annual OMB Uniform Guidance audit. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.

The university generally considers grants, contracts and non-capital appropriations to be exchange transactions. Under these arrangements, the university provides a bargained-for benefit, typically in the form of instruction, research or public service programs, either directly to the funding entity or to its constituents. The overall scope and nature of these program activities is determined by the level of funding and the requirements set forth by these resource providers.

OSU Health System Revenue

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payors for services rendered net of contractual allowances, charity care and bad debt expenses. Revenue received under third-party cost reimbursement agreements (primarily the federal Medicare and Medicaid programs) are subject to examination and retroactive adjustments by the agencies administering the programs. In the normal course of business, the Health System contests certain issues resulting from examination of prior years' reimbursement reports. The accompanying financial statements include provisions for estimated retroactive adjustments arising from such examinations and contested issues. The Health System recognizes settlements of protested adjustments or appeals upon resolution of the matters.

OSU Physicians Revenue

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payors for services rendered net of contractual allowances, charity care, self-pay discounts and bad debt expenses. OSU Physicians (OSUP), a discretely presented component unit of the university, provides care to patients under various reimbursable agreements, including governmental and commercial payors (third party payors). These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursements, and for administrative adjustments.

Charity Care and Community Benefit

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSUP. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient service revenue. OSU Health System and OSUP maintain records to identify and monitor the level of charity care provided, including the amount of charges foregone for services rendered. Net charity care costs for the OSU Health System for the years ended June 30, 2018 and 2017 are $30,362 and $42,710, respectively, after applying an additional expense of $6,776 and $12,416, respectively, for support received under the Health Care Assurance Program (HCAP). HCAP is administered by the State of Ohio to help hospitals cover a portion of the cost of providing charity care. Charity care costs for OSUP for the years ended June 30, 2018 and 2017 are $7,169 and $9,362, respectively.

Management Estimates

The preparation of financial statements in conformity with accounting principles, generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

Implementation of GASB Statement No. 75

In fiscal year 2018, the university implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires employers in cost-sharing, multi-employer plans to recognize a proportionate share of the net other post-employment benefit (OPEB) liabilities of the plans. The university participates in two cost-sharing multiple-employer pension plans, the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System, which provide post-retirement healthcare benefits. A proportionate share of the net OPEB liabilities of the retirement systems has been allocated to the university, based on retirement plan contributions for university employees. The cumulative effect of adopting GASB Statement No. 75 was a $1,224,870 reduction in the university's net position as of July 1, 2017. Balances reported for the year ended June 30, 2017 have not been restated due to limitations on the information available from the retirement systems. Additional information regarding net OPEB liabilities, related deferrals and OPEB expense is provided in Note 15.

Implementation of GASB Statement No. 81

In fiscal year 2018, the university implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). The cumulative effect of adopting GASB Statement No. 81 was a $12,223 reduction in the university's net position as of July 1, 2016. The effects of adopting

(dollars in thousands)

Statement No. 81 in the university's financial statements for the year ended June 30, 2017 were as follows:

	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
Statement of Net Position - Primary Institution			
Noncurrent Liabilities:			
Obligations under annuity and life income agreements	$ 30,473	$ (30,473)	$ -
Irrevocable split-interest agreements	-	30,689	30,689
Other noncurrent liabilities	101,702	(216)	101,486
Total noncurrent liabilities	6,571,561	-	6,571,561
Total liabilities	8,059,887	-	8,059,887
Other deferred inflows	19,139	12,719	31,858
Total deferred inflows	471,288	12,719	484,007
Restricted nonexpendable net position	1,480,440	(7,366)	1,473,074
Restricted expendable net position	1,195,515	(5,353)	1,190,162
Total net position	$ 5,524,546	$ (12,719)	$ 5,511,827

	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
Statement of Revenues, Expenses and Other Changes in Net Position - Primary Institution			
Institutional support	$ 254,782	$ (1,794)	$ 252,988
Total operating expenses	5,772,239	(1,794)	5,770,445
Net operating income (loss)	(800,796)	1,794	(799,002)
Net investment income (loss)	600,701	(3,013)	597,688
Other non-operating revenues (expenses)	7,261	722	7,983
Net non-operating revenue	1,216,121	(2,291)	1,213,831
Income (loss) before other changes in net position	415,325	(496)	414,829
Increase in net position	$ 570,533	$ (496)	$ 570,037

Reclassification of Investment Expenses

In 2018, the university implemented a change in presentation for investment expenses. These expenses, which totaled $64,305 for the year ended June 30, 2018 and had previously been reported as Institutional Support expense, are now being netted against investment income. University management determined that the use of this acceptable alternative accounting presentation is preferable, because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns. The statements of Revenues, Expenses and Other Changes in Net Position and Cash Flows for the year ended June 30, 2017 have been revised as follows:

(dollars in thousands)

Statement of Revenues, Expenses and Other Changes in Net Position, Primary Institution:

	For the year ended June 30, 2017		
	As originally reported	Effect of reclassification	As reclassified
Institutional support expense	$ 254,782	$ (54,869)	$ 199,913
Total operating expense	5,772,239	(54,869)	5,717,370
Net operating loss	(800,796)	54,869	(745,927)
Net investment income	600,701	(54,869)	545,832
Net non-operating revenue	1,216,121	(54,869)	1,161,252

Statement of Cash Flows, Primary Institution:

	For the year ended June 30, 2017		
	As originally reported	Effect of reclassification	As reclassified
Payments to or on behalf of employees	$ (2,237,758)	$ 1,997	$ (2,235,761)
University employee benefit payments	(595,410)	551	(594,859)
Payments to vendors for supplies and services	(1,941,533)	52,321	(1,889,212)
Net cash provided (used) by operating activities	(100,589)	54,869	(45,720)
Investment income, net of expenses	123,274	(54,869)	68,405
Net cash provided (used) by investing activities	(184,111)	(54,869)	(238,980)

The reclassification has no impact on total net position or net cash flows as originally reported.

Newly Issued Accounting Pronouncements

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

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

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

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

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

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

Other

The university is exempt from income taxes as an instrumentality of the State of Ohio under Internal Revenue Code §115 and Internal Revenue Service regulations. Any unrelated business income is taxable.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2018, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $1,977,384 as compared to bank balances of $1,972,510. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $194,946 is covered by federal deposit insurance and $1,777,564 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2017, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $1,250,960 as compared to bank balances of $1,265,022. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $53,569 is covered by federal deposit insurance and $1,211,453 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2018, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $136,098 as compared to bank balances of $139,932. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,881 is covered by federal deposit insurance and $135,051 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2017, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $125,725 as compared to bank balances of $122,850. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $5,121 is covered by federal deposit insurance and $117,729 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

NOTE 3 — INVESTMENTS

University investments are grouped into three major categories for financial reporting purposes: Temporary Investments, the Long-Term Investment Pool and Other Long-Term Investments.

Temporary Investments are amounts available for current operations. The target is to maximize value while protecting the liquidity of the assets. Temporary Investments include the following instruments with varying maturities: obligations of the U. S. Treasury and other federal agencies and instrumentalities, municipal and state bonds, corporate bonds, certificates of deposit, commercial paper, repurchase agreements, money market funds and mutual funds.

The Long-Term Investment Pool is a unitized investment pool consisting of gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and quasi-endowment funds which are internally designated funds that are to function as endowments. The Long-

Term Investment 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. The university's Board of Trustees approved the following thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equities	40-80%	MSCI All Country World Index (ACWI)
Global Credit	10-50%	Barclays U.S. Aggregate Bond Index
Real Assets	5-20%	U.S. Consumer Price Index (CPI) + 5%

The Global Equities category includes domestic equity, international equity, emerging market equity, hedged funds and private equity. The Global Credit category includes global fixed income and relative value/macro, credit oriented managers and private credit. The Real Assets category includes real estate and infrastructure funds.

Other Long-Term Investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation. Included in this category are charitable remainder trust assets invested in mutual funds, OSU Foundation interests in unitrust, gift annuities, annuity trust and pooled income agreements, life insurance policies for which the OSU Foundation has been named owner and beneficiary, and certain real estate investments. Also included in this category are other private equity investments and investments in certain organizations that are affiliated with the OSU Health System.

U. S. Government and Agency securities are invested through trust agreements with banks who keep the securities in their safekeeping accounts at the Federal Reserve Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the university. Common stocks, corporate bonds and money market instruments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at Northern Trust and BNY Mellon in "book entry" form. The banks internally designate the securities as owned by or pledged to the university.

The cash and cash equivalents amount represents cash held in the Long-Term Investment Pool by various investment managers. Such amounts were generated by gifts received throughout the fiscal year and sales of investments in the Long-Term Investment Pool. Subsequently, the cash and cash equivalents will be used to purchase long-term investments.

(dollars in thousands)

Total university investments by major category for the primary institution at June 30, 2018 and 2017 are as follows:

	Primary Institution 2018	Primary Institution 2017
Temporary Investments	$ 1,610,826	$ 1,645,681
Long-Term Investment Pool:		
Gifted Endowment - University	1,104,236	1,062,321
Gifted Endowment - OSU Foundation	958,750	877,261
Quasi Endowment - Operating	1,208,769	1,299,779
Quasi Endowment - Designated	1,939,679	1,014,098
Total Long-Term Investment Pool	5,211,434	4,253,459
Securities Lending Collateral Investments	39,510	15,949
Other Long-Term Investments	163,946	143,638
Total Investments	$ 7,025,716	$ 6,058,727

Total university investments by investment type for the primary institution at June 30, 2018 are as follows:

	Primary Institution				
	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ -	$ 319,135	$ -	$ -	$ 319,135
International equity	-	348,018	-	-	348,018
Equity mutual funds	84,459	750,572	23,818	-	858,849
U.S. government obligations	140,893	384,731	468	-	526,092
U.S. government agency obligations	118,198	-	-	-	118,198
Repurchase agreements	-	-	-	-	-
Corporate bonds and notes	1,098,902	-	-	-	1,098,902
Bond mutual funds	92,242	-	17,036	-	109,278
Foreign government bonds	11,960	-	-	-	11,960
Real assets	10,441	651,882	28,472	-	690,795
Hedge funds	-	1,377,733	-	-	1,377,733
Private equity	-	772,239	76,263	-	848,502
Commercial paper	39,501	-	-	-	39,501
Cash and cash equivalents	-	607,124	-	-	607,124
Other	14,230	-	17,889	-	32,119
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	19,014	19,014
Variable rate notes	-	-	-	19,268	19,268
Commercial paper	-	-	-	-	-
Certificates of deposit	-	-	-	1,258	1,258
Cash and other adjustments	-	-	-	(30)	(30)
	$ 1,610,826	$ 5,211,434	$ 163,946	$ 39,510	$ 7,025,716

(dollars in thousands)

Total university investments by investment type for the primary institution at June 30, 2017 are as follows:

	Primary Institution				
	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ -	$ 214,328	$ -	$ -	$ 214,328
International equity	-	160,680	-	-	160,680
Equity mutual funds	84,674	536,226	23,810	-	644,710
U.S. government obligations	162,870	367,909	352	-	531,131
U.S. government agency obligations	130,557	-	-	-	130,557
Repurchase agreements	-	-	-	-	-
Corporate bonds and notes	1,073,319	-	-	-	1,073,319
Bond mutual funds	88,106	-	16,831	-	104,937
Foreign government bonds	30,212	-	-	-	30,212
Real assets	8,347	674,729	25,930	-	709,006
Hedge funds	-	1,399,392	-	-	1,399,392
Private equity	-	588,281	59,047	-	647,328
Commercial paper	46,028	-	-	-	46,028
Cash and cash equivalents	-	311,914	-	-	311,914
Other	21,568	-	17,668	-	39,236
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	10,621	10,621
Variable rate notes	-	-	-	890	890
Commercial paper	-	-	-	1,410	1,410
Certificates of deposit	-	-	-	3,044	3,044
Cash and other adjustments	-	-	-	(16)	(16)
	$ 1,645,681	$ 4,253,459	$ 143,638	$ 15,949	$ 6,058,727

The components of the net investment income and loss for the primary institution are as follows:

	2018	2017
Interest and dividends	$ 162,059	$ 120,682
Net increase in fair value of investments	341,400	477,006
Investment expenses	(64,305)	(54,869)
Total	$ 439,154	$ 542,819

Information on Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value.

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Directly held equity securities, registered bond and equity mutual funds, and other miscellaneous investments classified in Level 1 are valued using prices quoted in active markets that the custodian and university have the ability to access.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include US government agencies and obligations, corporate bonds, municipal bonds, foreign government bonds, repurchase agreements, commercial paper, and other debt related investments. The evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the university's ownership in real estate, limited partnerships and equity positions in private companies.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Interest in investment funds with a NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV consist mainly of non-publicly traded mutual funds, hedge funds, private equity, and other alternative funds. These assets are valued by the associated external investment manager/general partner and reviewed by the university using the most recent audited and unaudited financial statements available.

(dollars in thousands)

Not Leveled – Cash is not measured at fair value and, thus, is not subject to the fair value disclosure requirements. Cash not subject to such requirements amounted to $19,733 and $76,474 at June 30, 2018 and 2017, respectively.

Investments by fair value category for the primary institution at June 30, 2018 are as follows:

	Primary Institution				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 319,135	$ -	$ -	$ -	$ 319,135
International equity	348,018	-	-	-	348,018
Equity mutual funds	196,170	-	-	662,679	858,849
U.S. government obligations	3,313	522,779	-	-	526,092
U.S. government agency obligations	-	118,198	-	-	118,198
Corporate bonds and notes	-	1,097,801	1,101	-	1,098,902
Bond mutual funds	109,278	-	-	-	109,278
Foreign government bonds	-	11,960	-	-	11,960
Real assets	9,927	-	144,843	536,025	690,795
Hedge funds	-	-	-	1,377,733	1,377,733
Private equity	-	-	122,338	726,164	848,502
Commercial paper	-	39,501		-	39,501
Cash equivalents	587,391	-	-	-	587,391
Other	-	13,813	18,306	-	32,119
Securities Lending Collateral Assets:					
Repurchase agreements	-	19,014	-	-	19,014
Variable rate notes	-	19,268	-	-	19,268
Commercial paper	-	-	-	-	-
Certificates of deposit	-	1,258	-	-	1,258
Other adjustments	-	(30)	-	-	(30)
	$ 1,573,232	$ 1,843,562	$ 286,588	$ 3,302,601	$ 7,005,983

(dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2017 are as follows:

	Primary Institution				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 214,328	$ -	$ -	$ -	$ 214,328
International equity	160,680	-	-	-	160,680
Equity mutual funds	164,075	-	-	480,635	644,710
U.S. government obligations	(138)	531,269	-	-	531,131
U.S. government agency obligations	-	130,557	-	-	130,557
Corporate bonds and notes	-	1,072,324	995	-	1,073,319
Bond mutual funds	104,937	-	-	-	104,937
Foreign government bonds	-	30,212	-	-	30,212
Real assets	18,592	-	141,757	548,657	709,006
Hedge funds	-	-	-	1,399,392	1,399,392
Private equity	-	-	41,084	606,244	647,328
Commercial paper	-	46,028	-	-	46,028
Cash equivalents	235,440	-	-	-	235,440
Other	-	21,237	17,999	-	39,236
Securities Lending Collateral Assets:					
Repurchase agreements	-	10,621	-	-	10,621
Variable rate notes	-	890	-	-	890
Commercial paper	-	1,410	-	-	1,410
Certificates of deposit	-	3,044	-	-	3,044
Other adjustments	-	(16)	-	-	(16)
	$ 897,914	$ 1,847,576	$ 201,835	$ 3,034,928	$ 5,982,253

Additional Information on Investments Measured at the NAV

Additional information on fair values, unfunded commitments, remaining life and redemption for investments measured at the NAV for the primary institution at June 30, 2018 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Equity mutual funds - non-public international	$ 662,679	$ -	No limit	1 to 30 days	None
Hedge funds - absolute return, credit, long/short equities	1,377,733	-	No limit	30 to 180 day notice periods	Lock-up provisions ranging from none to 2 years; side pockets on a few funds
Private equity - private credit, buyouts, venture, secondary	726,164	694,178	1-12 years	Partnerships ineligible for redemption	Not redeemable
Real assets - natural resources, real estate, intrastructure	536,025	180,896	1-12 years	Partnerships ineligible for redemption	Not redeemable
	$ 3,302,601	$ 875,074			

(dollars in thousands)

Additional Risk Disclosures for Investments

GASB Statements No. 3 and 40 require certain additional disclosures related to the liquidity, interest-rate, custodial, credit and foreign currency risks associated with deposits and investments.

Liquidity risk – The university's private equity and real asset investments are illiquid and subject to redemption restrictions in accordance with their respective governing documents. Such governing documents do not provide for the university to exit these investments until their respective terms have ended.

Interest-rate risk – Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2018 are as follows:

	Primary Institution				
		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 526,092	$ 425,816	$ 100,002	$ 274	$ -
U.S. government agency obligations	118,198	4,215	32,651	14,098	67,234
Commercial paper	39,501	39,501	-	-	-
Corporate bonds	1,098,902	268,876	734,097	41,510	54,419
Bond mutual funds	109,278	7,975	56,393	29,257	15,653
Other governmental bonds	13,812	5,574	5,385	49	2,804
Foreign governmental bonds	11,960	3,888	8,072	-	-
Securities Lending Collateral:					
Repurchase agreements	19,014	19,014	-	-	-
Certificates of deposit	1,258	1,258	-	-	-
Commercial paper	-	-	-	-	-
Variable rate notes	19,268	19,268	-	-	-
Total	$ 1,957,283	$ 795,385	$ 936,600	$ 85,188	$ 140,110

(dollars in thousands)

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2017 are as follows:

	Primary Institution				
		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 531,131	$ 395,780	$ 107,902	$ 27,449	$ -
U.S. government agency obligations	130,557	12,681	55,288	16,468	46,120
Commercial paper	46,028	46,028	-	-	-
Corporate bonds	1,073,319	301,723	661,802	55,156	54,638
Bond mutual funds	104,937	4,862	58,284	28,182	13,609
Other governmental bonds	21,237	4,803	13,216	175	3,043
Foreign governmental bonds	30,212	22,666	7,546	-	-
Securities Lending Collateral:					
Repurchase agreements	10,621	10,621	-	-	-
Certificates of deposit	3,044	3,044	-	-	-
Commercial paper	1,410	1,410	-	-	-
Variable rate notes	890	890	-	-	-
Total	$ 1,953,386	$ 804,508	$ 904,038	$ 127,430	$ 117,410

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the custodian, university investments may not be recovered. It is the policy of the university to hold investments in custodial accounts, and the securities are registered solely in the name of the university. All investments are transacted with nationally reputable brokerage firms offering protection by the Securities Investor Protection Corporation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3,* securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk.

(dollars in thousands)

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2018 are as follows:

	Primary Institution										
	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not Rated
U.S. government											
and agency obligations	$ 644,290	$ 3,881	$ 589,810	$ 41,579	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,020
Corporate bonds	1,098,902	61,155	172,281	454,979	310,119	17,706	4,650	-	-	-	78,012
Bond mutual funds	109,278	76,817	5,108	16,180	8,002	1,405	739	1,010	-	-	17
Foreign government bonds	11,960	1,690	3,029	5,236	2,005	-	-	-	-	-	-
Commercial paper	39,501	-	-	37,507	1,994	-	-	-	-	-	-
Other government bonds	13,812	1,192	6,033	2,892	-	-	-	300	-	-	270
Securities Lending Collateral:											
Repurchase agreements	19,014	-	-	-	-	-	-	-	-	-	19,014
Certificates of deposit	1,258	-	-	1,258	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-	-	-	-	-
Variable rate notes	19,268	-	6,361	12,907	-	-	-	-	-	-	-
Total	$ 1,957,283	$ 144,735	$ 782,622	$ 572,538	$ 322,120	$ 19,111	$ 5,389	$ 1,310	$ -	$ -	$ 106,333

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2017 are as follows:

	Primary Institution										
	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not Rated
U.S. government											
and agency obligations	$ 661,688	$ 4,828	$ 615,608	$ 33,253	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,999
Corporate bonds	1,073,319	74,388	187,093	367,603	328,182	19,966	5,249	-	-	-	90,838
Bond mutual funds	104,937	69,995	5,424	18,060	8,080	1,474	619	1,272	-	-	13
Foreign government bonds	30,212	3,080	2,126	12,724	2,043	-	-	-	-	-	10,239
Commercial paper	46,028	-	-	10,949	-	-	-	-	-	-	35,079
Other government bonds	21,237	1,325	9,964	5,259	3,688	-	-	-	-	-	1,001
Securities Lending Collateral:											
Repurchase agreements	10,621	-	-	-	-	-	-	-	-	-	10,621
Certificates of deposit	3,044	-	-	2,627	-	-	-	-	-	-	417
Commercial paper	1,410	-	-	1,410	-	-	-	-	-	-	-
Variable rate notes	890	-	633	257	-	-	-	-	-	-	-
Total	$ 1,953,386	$ 153,616	$ 820,848	$ 452,142	$ 341,993	$ 21,440	$ 5,868	$ 1,272	$ -	$ -	$ 156,207

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the university to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

There is no investment in issuers other than U. S. government guaranteed securities that represents five percent or more of investments held at June 30, 2018 and June 30, 2017.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

(dollars in thousands)

At June 30, 2018, exposure to foreign currency risk for the primary institution is as follows:

	Primary Institution					
	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds and Notes	Foreign Government Bonds	Partnerships and Hedge Funds
Argentine Peso	$ -	$ -	$ 88	$ -	$ -	$ -
Australian dollar	2,933	16,426	(5)	-	-	-
Bangladeshi taka	-	12	-	-	-	-
Brazilian real	4,477	4,966	23	-	-	-
Canadian dollar	10,755	5,805	177	-	-	-
Chilean peso	287	1,592	-	-	-	-
Chinese yuan	77	5,344	607	-	-	-
Columbian peso	116	782	56	-	-	-
Czech Republic koruna	42	1,484	-	-	-	-
Danish krone	3,433	3,930	5	-	-	-
Egyptian pound	46	17	(117)	-	-	-
Euro	104,881	63,019	(568)	-	1,672	98,131
Great Britain pound sterling	60,906	88,214	9	2,509	-	75,012
Hong Kong dollar	17,917	22,857	-	-	-	-
Hungarian forint	62	71	-	-	-	-
Iceland Krona	-	-	32	-	-	-
Indian rupee	2,318	4,896	191	-	-	-
Indonesian rupiah	487	785	-	-	-	-
Israeli shekel	166	160	-	-	-	-
Japanese yen	81,496	67,162	(95)	-	-	-
Kuwaiti dinar	-	1,707	-	-	-	-
Malaysian ringgit	609	3,584	-	-	-	-
Mexican peso	723	2,430	485	-	-	-
New Taiwan dollar	3,149	6,670	(306)	-	-	-
New Turkish lira	197	2,002	-	-	-	-
New Zealand dollar	129	79	80	-	-	-
Norwegian krone	5,380	3,614	54	-	-	-
Pakistan rupee	41	2,275	-	-	-	-
Peruvian nuevo sol	-	6	-	-	-	-
Philippine peso	233	1,367	-	-	-	-
Polish zloty	268	244	-	-	-	-
Qatarian rial	196	69	-	-	-	-
Romanian new leu	-	822	(120)	-	-	-
Russian ruble	447	436	263	-	-	-
Singapore dollar	548	10,186	(303)	-	-	-
South African rand	1,602	6,178	2	-	-	-
South Korean won	4,846	7,561	(247)	-	-	-
Sri Lanka rupee	-	38	-	-	-	-
Swedish krona	3,028	5,308	78	-	-	-
Swiss franc	31,142	18,485	-	-	-	24,863
Thailand bhat	576	3,503	(1)	-	-	-
UAE dirham	139	3,229	-	-	-	-
Total	$ 343,652	$ 367,315	$ 388	$ 2,509	$ 1,672	$ 198,006

(dollars in thousands)

At June 30, 2017, exposure to foreign currency risk for the primary institution is as follows:

	Primary Institution					
	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds and Notes	Foreign Government Bonds	Partnerships and Hedge Funds
Australian dollar	$ 1,557	$ 12,026	$ 486	$ -	$ -	$ 4,054
Bangladeshi taka	-	544	-	-	-	-
Brazilian real	2,473	7,196	183	-	-	-
Canadian dollar	11,022	4,644	(30)	-	-	-
Chilean peso	(1)	2,256	-	-	-	-
Chinese yuan	-	2,225	3	-	-	-
Columbian peso	-	1,906	-	-	-	-
Czech Republic koruna	-	1,216	-	-	2,185	-
Danish krone	2,891	341	8	8,543	-	-
Egyptian pound	-	22	-	-	-	-
Euro	49,766	45,438	182	4,023	-	96,881
Great Britain pound sterling	27,369	66,843	114	2,638	-	30,577
Hong Kong dollar	10,858	16,146	17	-	-	-
Hungarian forint	-	56	-	-	-	-
Indian rupee	(5)	4,793	139	-	-	-
Indonesian rupiah	(1)	933	141	-	-	-
Israeli shekel	-	74	-	-	-	-
Japanese yen	28,717	55,177	34	-	15,099	-
Kuwaiti dinar	-	1,910	-	-	-	-
Malaysian ringgit	-	1,908	69	-	-	-
Mexican peso	(2)	4,767	274	(61)	-	-
New Taiwan dollar	(8)	6,438	(174)	-	-	-
New Turkish lira	-	2,535	232	-	-	-
New Zealand dollar	-	27	(289)	-	-	-
Norwegian krone	3,505	1,745	50	-	-	-
Pakistan rupee	-	4,823	-	-	-	-
Peruvian nuevo sol	-	6	71	-	-	-
Philippine peso	-	1,348	-	-	-	-
Polish zloty	(7)	1,048	-	-	-	-
Qatarian rial	-	85	-	-	-	-
Romanian new leu	-	2,887	-	-	-	-
Russian ruble	(2)	33	146	-	-	-
Singapore dollar	-	7,978	(625)	-	-	-
South African rand	(4)	5,560	6	-	-	-
South Korean won	3,284	4,839	(183)	-	-	-
Sri Lanka rupee	-	116	-	-	-	-
Swedish krona	773	4,711	273	-	-	-
Swiss franc	18,495	15,004	(262)	-	-	13,860
Thailand bhat	-	3,232	(3)	-	-	-
UAE dirham	-	1,137	-	-	-	-
Total	$ 160,680	$ 293,973	$ 862	$ 15,143	$ 17,284	$ 145,372

Securities Lending

The university has engaged in a securities lending program through its custodian bank of the Long-Term Investment Pool. Securities loaned at June 30, 2018 and 2017 were comprised completely of equities, and these loans were secured by collateral in the form of cash, equities, U.S. government obligations, and foreign government/private debt. All loans must be secured by collateral amounting to no less than 102% of the current fair value of domestic securities loaned and no less than 105% of the current fair value of foreign securities loaned.

As of June 30, 2018, there was no credit risk on securities loaned due to the fair value of the collateral held being greater than the fair value of securities on loan to each individual broker. The university, the custodian, and the borrower each maintain the right to terminate a loan. Upon maturity or termination of a loan agreement, the custodian is contractually obligated to indemnify the university if the borrowers fail to return loaned securities and if liquidation of the collateral is insufficient to replace the value of the securities loaned. Noncash collateral cannot be pledged or sold by the university without a borrower's default. While earning fees received by the university during the loan period, cash collateral is simultaneously invested in short term, highly liquid securities in order to further increase interest earned while also matching a weighted average maturity of loans which is not to exceed 60 days.

As of June 30, 2018, securities loaned by the university amounted to a fair value of $82,521 and were secured by collateral in the amount of $88,940. The portion of this collateral that was received in cash amounted to $39,510 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

As of June 30, 2017, securities loaned by the university amounted to a fair value of $26,267 and were secured by collateral in the amount of $27,745. The portion of this collateral that was received in cash amounted to $15,949 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

(dollars in thousands)

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable for the primary institution at June 30, 2018 and 2017 consist of the following:

	Primary Institution	
	2018	**2017**
Gross receivables - OSU Health System	$ 1,165,740	$ 1,089,251
Grant and contract receivables	92,973	91,684
Tuition and fees receivable	19,519	20,176
Receivables for departmental and auxiliary sales and services	44,280	52,415
State and federal receivables	26,535	9,239
Other receivables	32	9,440
Total receivables	1,349,079	1,272,205
Less: Allowances	729,769	696,330
Total receivables, net	$ 619,310	$ 575,875

Allowances consist primarily of allowances for doubtful accounts and contractual adjustments of receivables of the OSU Health System.

Notes receivable consist primarily of Perkins and health professions loans and are net of an allowance for doubtful accounts of $18,709 and $18,445 at June 30, 2018 and 2017, respectively. Federal capital contributions to the Perkins loan programs represent advances which are ultimately refundable to the federal government.

In accordance with GASB Statement No. 33*, Accounting and Reporting for Non-exchange Transactions*, the university has recorded $104,041 in non-endowment pledges receivable and a related allowance for doubtful accounts of $3,616 at June 30, 2018. The university recorded $110,849 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,781 at June 30, 2017.

Accounts receivable for the discretely presented component units at June 30, 2018 and 2017 consist of the following:

	Discretely Presented Component Units	
	2018	**2017**
Gross receivables - OSU Physicians	$ 115,796	$ 101,787
Other receivables	9,358	13,234
Total receivables	125,154	115,021
Less: Allowances for doubtful accounts	71,877	67,285
Total receivables, net	$ 53,277	$ 47,736

Allowances consist primarily of allowances for doubtful accounts and contractual adjustments of receivables of OSU Physicians.

(dollars in thousands)

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the primary institution for the year ended June 30, 2018 is summarized as follows:

	Primary Institution			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 88,502	$ 1,201	$ 211	$ 89,492
Intangibles	18,413	-	-	18,413
Construction in progress	166,710	212,149	-	378,859
Total non depreciable assets	273,625	213,350	211	486,764
Capital assets being depreciated:				
Improvements other than buildings	828,429	34,794	29,368	833,855
Buildings and fixed equipment	6,214,539	168,613	7,158	6,375,994
Movable equipment, furniture and software	1,452,745	139,184	44,075	1,547,854
Library books	188,006	4,295	1,026	191,275
Total	8,683,719	346,886	81,627	8,948,978
Less: Accumulated depreciation	4,073,760	394,461	75,701	4,392,520
Total depreciable assets, net	4,609,959	(47,575)	5,926	4,556,458
Capital assets, net	$ 4,883,584	$ 165,775	$ 6,137	$ 5,043,222

The increase in construction in progress of $212,149 in fiscal year 2018 represents the amount of capital expenditures for new projects of $496,509, net of assets placed in service of $284,360.

(dollars in thousands)

Capital assets activity for the primary institution for the year ended June 30, 2017 is summarized as follows:

	Primary Institution			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 85,335	$ 3,474	$ 307	$ 88,502
Intangibles	18,413	-	-	18,413
Construction in progress	103,555	63,155	-	166,710
Total non depreciable assets	207,303	66,629	307	273,625
Capital assets being depreciated:				
Improvements other than buildings	812,055	16,374	-	828,429
Buildings and fixed equipment	6,039,509	183,276	8,246	6,214,539
Movable equipment, furniture and software	1,374,200	138,473	59,928	1,452,745
Library books	183,389	5,109	492	188,006
Total	8,409,153	343,232	68,666	8,683,719
Less: Accumulated depreciation	3,764,023	374,615	64,878	4,073,760
Total depreciable assets, net	4,645,130	(31,383)	3,788	4,609,959
Capital assets, net	$ 4,852,433	$ 35,246	$ 4,095	$ 4,883,584

The increase in construction in progress of $63,155 in fiscal year 2017 represents the amount of capital expenditures for new projects of $318,555, net of assets placed in service of $255,400.

Capital assets activity for the discretely presented component units for the year ended June 30, 2018 is summarized as follows:

	Discretely Presented Component Units			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 25,731	$ -	$ -	$ 25,731
Intangibles	52	-	6	46
Construction in progress	15,166	4,592	-	19,758
Total non depreciable assets	40,949	4,592	6	45,535
Capital assets being depreciated:				
Improvements other than buildings	13,423	2,362	1,425	14,360
Buildings and fixed equipment	102,366	10,731	1,179	111,918
Movable equipment, furniture and software	30,574	3,653	793	33,434
Total	146,363	16,746	3,397	159,712
Less: Accumulated depreciation	65,145	7,674	2,131	70,688
Total depreciable assets, net	81,218	9,072	1,266	89,024
Capital assets, net	$ 122,167	$ 13,664	$ 1,272	$ 134,559

(dollars in thousands)

The increase in construction in progress of $4,592 in fiscal year 2018 represents the amount of capital expenditures for new projects of $14,943, net of assets placed in service of $10,351.

Capital assets activity for the discretely presented component units for the year ended June 30, 2017 is summarized as follows:

	Discretely Presented Component Units			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 21,122	$ 6,354	$ 1,745	$ 25,731
Intangibles	-	52	-	52
Construction in progress	25,491	(10,325)	-	15,166
Total non depreciable assets	46,613	(3,919)	1,745	40,949
Capital assets being depreciated:				
Improvements other than buildings	8,510	5,663	750	13,423
Buildings and fixed equipment	72,366	41,622	11,622	102,366
Movable equipment, furniture and software	50,281	2,611	22,318	30,574
Library books	-	-	-	-
Total	131,157	49,896	34,690	146,363
Less: Accumulated depreciation	59,805	7,138	1,798	65,145
Total depreciable assets, net	71,352	42,758	32,892	81,218
Capital assets, net	$ 117,965	$ 38,839	$ 34,637	$ 122,167

The decrease in construction in progress of $10,325 in fiscal year 2017 represents the amount of capital expenditures for new projects of $19,063, net of assets placed in service of $29,388.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses for the primary institution at June 30, 2018 and 2017 consist of the following:

	Primary Institution	
	2018	2017
Payables to vendors for supplies and services	$ 330,538	$ 303,026
Accrued compensation and benefits	131,639	125,049
Retirement system contributions payable	80,066	49,572
Other accrued expenses	37,120	47,107
Total payables and accrued expenses	$ 579,363	$ 524,754

(dollars in thousands)

NOTE 7 – DEPOSITS AND ADVANCE PAYMENTS FOR GOODS AND SERVICES

Deposits and advance payments for goods and services for the primary institution at June 30, 2018 and 2017 consist of the following:

	Primary Institution	
	2018	2017
Current deposits and advance payments:		
Tuition and fees	$ 42,585	$ 40,002
Departmental and auxiliary sales and services	81,541	64,546
Affinity agreements	2,915	5,068
Advance from concessionaire	21,786	-
Grant and contract advances	111,091	101,307
Other deposits and advance payments	14,483	12,957
Total current deposits and advance payments	$ 274,401	$ 223,880
Advance from concessionaire	$ 1,046,342	$ -
Other non-current deposits and advance payments:	68,018	73,289

NOTE 8 – SELF-INSURANCE ACCRUALS

The university maintains self-insurance programs for professional medical malpractice, employee health insurance and workers' compensation. Information on each of these programs is provided below.

Medical Malpractice

The university has established trusteed self-insurance funds for professional medical malpractice liability claims with a $4,000 limit per occurrence and $18,000 annual aggregate. The university self-insurance funds have insurance in excess of $4,000 per occurrence through Oval Limited, a blended component unit of the university. Effective July 1, 2017, Oval Limited provides coverage with limits of $85,000 per occurrence and in the aggregate.

Previous coverage levels for Oval Limited are as follows:

Accident Period for Oval	Gross Oval Limit (Occurrence and Annual Aggregate)
7/1/16 – 6/30/18	$85,000
7/1/15 – 6/30/16	$75,000
7/1/08 – 6/30/15	$55,000
7/1/06 – 6/30/08	$40,000
7/1/05 – 6/30/06	$35,000
7/1/02 – 6/30/05	$25,000
7/1/97 – 6/30/02	$15,000
9/30/94 – 6/30/97	$10,000

The limits are in excess of underlying policies with limits of $4,000 per occurrence and $18,000 in the aggregate. For the year ended June 30, 2018, Oval reinsured, in excess of the self-insured retention, 100% of the first $25,000 of risk to Berkley Insurance Company. The next $20,000 was fully ceded to Endurance Specialty Insurance Ltd, then $20,000 ceded to The Medical Protective Company, with the next $10,000 ceded to Berkshire Hathaway Specialty Insurance and above that Oval ceded the remaining $10,000 of the risk to Ironshore Insurance Ltd.

The estimated liability and the related contributions to the trustee fund are based upon an independent actuarial determination as of June 30, 2018. OSUP participates in the university self-insurance fund for professional medical malpractice liability claims.

The university's estimate of professional malpractice liability includes provisions for known claims and actuarially determined estimates of incurred but not reported claims and incidents. This liability at June 30, 2018 of the anticipated future payments on gross claims is estimated at its present value of $51,042 discounted at an estimated rate of 3.0% (university funds) and an additional $19,286 discounted at an estimated rate of 3.0% (Oval Limited).

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $203,611 (which primarily consist of bond and equity mutual funds, money market funds and U.S. treasury notes) are more than the recorded liability at June 30, 2018, and the surplus of $133,283 is included in unrestricted net position.

At June 30, 2017, the anticipated future payments on gross claims was estimated at its present value of $51,626 discounted at an estimated rate of 3% (university funds) and an additional $7,297 discounted at an estimated rate of 3% (Oval Limited). The self-insurance fund assets of $184,849 (which primarily consist of bond and equity mutual funds, money market funds and U.S. treasury notes) were more than the recorded liability at June 30, 2017, and the surplus of $111,328 was included in unrestricted net position.

Employee Health Insurance

The university is also self-insured for employee health insurance. As of June 30, 2018 and 2017, $32,997 and $35,849, respectively is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Workers' Compensation

Effective January 1, 2013, the university became self-insured for workers' compensation. As of June 30, 2018 and 2017, respectively, $20,112 and $20,498 are recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

(dollars in thousands)

Changes in reported self-insurance liabilities for the primary institution since June 30, 2016 result from the following activities:

	Malpractice		Health		Workers' Compensation	
	2018	2017	2018	2017	2018	2017
Liability at beginning of fiscal year	$ 73,523	$ 84,800	$ 35,849	$ 39,096	$ 20,498	$ 19,127
Current year provision for losses	865	(10,307)	335,534	325,339	15,914	(11,409)
Claim payments	(4,060)	(970)	(338,386)	(328,586)	(16,300)	12,780
Balance at fiscal year end	$ 70,328	$ 73,523	$ 32,997	$ 35,849	$ 20,112	$ 20,498

NOTE 9 — DEBT

The university may finance the construction, renovation and acquisition of certain facilities through the issuance of debt obligations, which may include general receipts bonds, certificates of participation, commercial paper, capital lease obligations and other borrowings. Debt activity for the primary institution for the year ended June 30, 2018 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,144	$ -	$ 159	$ 1,985	$ 159
OH Air Quality Note Series A	3,031	-	413	2,618	420
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,729	-	76	2,653	80
General Receipts Bonds - Fixed Rate:					
2008A, due serially through 2028	94,510	-	86,940	7,570	7,570
2010A, due serially through 2020	79,160	-	38,700	40,460	24,135
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	84,625	-	-	84,625	-
2011, due 2111	500,000	-	-	500,000	-
2012A, due 2030	74,980	-	8,230	66,750	8,530
2012B, due 2033	15,335	-	1,820	13,515	1,480
2014A, due serially through 2044	131,560	-	2,315	129,245	2,435
2016A, due serially through 2111	600,000	-	-	600,000	-
2016B, due serially through 2030	25,935	-	2,680	23,255	2,790
2017, due serially through 2028	-	69,950	-	69,950	-
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	49,800	-	-	49,800	49,800
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	86,025	-	-	86,025	86,025
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	150,000	-	-	150,000	150,000
Capital Lease Obligations	8,548	10,508	3,727	15,329	4,630
	3,205,997	80,458	145,060	3,141,395	640,589
Unamortized Bond Premiums	86,129	12,719	17,637	81,211	-
Total outstanding debt	$ 3,292,126	$ 93,177	$ 162,697	$ 3,222,606	$ 640,589

(dollars in thousands)

Debt activity for the primary institution for the year ended June 30, 2017 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,303	$ -	$ 159	$ 2,144	$ 159
OH Air Quality Note Series A	3,438	-	407	3,031	413
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,802	-	73	2,729	76
General Receipts Bonds - Fixed Rate:					
2008A, due serially through 2028	110,330	-	15,820	94,510	7,340
2010A, due serially through 2020	117,190	-	38,030	79,160	38,700
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	84,625	-	-	84,625	-
2011, due 2111	500,000	-	-	500,000	-
2012A, due 2030	82,870	-	7,890	74,980	8,230
2012B, due 2033	17,135	-	1,800	15,335	1,820
2014A, due serially through 2044	133,795	-	2,235	131,560	2,315
2016A, due serially through 2111	600,000	-		600,000	-
2016B, due serially through 2030	28,545	-	2,610	25,935	2,680
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	51,975	-	2,175	49,800	49,800
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	91,925	-	5,900	86,025	86,025
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	150,000	-	-	150,000	150,000
Capital Lease Obligations	4,547	6,430	2,429	8,548	1,891
	3,279,095	6,430	79,528	3,205,997	651,984
Unamortized Bond Premiums	94,165	-	8,036	86,129	-
Total outstanding debt	$ 3,373,260	$ 6,430	$ 87,564	$ 3,292,126	$ 651,984

Debt activity for the discretely presented component units for the year ended June 30, 2018 is as follows:

	Discretely Presented Component Units				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians - Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 13,024	$ -	$ 587	$ 12,437	$ 612
OSU Physicians - Term Loan Payable, due 2023	1,614	-	267	1,347	263
TRC Ohio Development Service Agency Note Payable	-	5,000	-	5,000	311
Campus Partners - Columbus Foundation Note Payable	1,896	-	63	1,833	85
Campus Partners - Edwards TIF Note Payable	150	1,500	-	1,650	-
Capital Lease Obligations	-	152	55	97	51
Total outstanding debt	$ 16,684	$ 6,652	$ 972	$ 22,364	$ 1,322

(dollars in thousands)

Debt activity for the discretely presented component units for the year ended June 30, 2017 is as follows:

	Discretely Presented Component Units				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians - Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 13,659	$ -	$ 635	$ 13,024	$ 601
OSU Physicians - Term Loan Payable, due 2023	1,887	-	273	1,614	261
Campus Partners - Columbus Foundation Note Payable	-	1,979	83	1,896	84
Campus Partners - Edwards TIF Note Payable	-	150	-	150	-
Capital Lease Obligations	-	-	-	-	-
Total outstanding debt	$ 15,546	$ 2,129	$ 991	$ 16,684	$ 946

Debt obligations are generally callable by the university, bear interest at fixed and variable rates ranging from 0% to 6% and mature at various dates through 2111. Maturities and interest on debt obligations for the next five years and in five-year periods for the primary institution are as follows:

(dollars in thousands)

	Primary Institution		
	Principal	Interest	Total
2019	$ 640,589	$ 134,466	$ 775,055
2020	38,411	123,708	162,119
2021	37,252	121,999	159,251
2022	35,176	120,370	155,546
2023	43,048	118,905	161,953
2024-2028	181,003	567,267	748,270
2029-2033	135,229	532,270	667,499
2034-2038	98,817	507,044	605,861
2039-2043	794,705	348,686	1,143,391
2044-2048	387,165	219,355	606,520
2049-2053	-	170,600	170,600
2054-2058	250,000	155,420	405,420
2059-2063	-	120,000	120,000
2064-2068	-	120,000	120,000
2069-2073	-	120,000	120,000
2074-2078	-	120,000	120,000
2079-2083	-	120,000	120,000
2084-2088	-	120,000	120,000
2089-2093	-	120,000	120,000
2094-2098	-	120,000	120,000
2099-2103	-	120,000	120,000
2104-2108	-	120,000	120,000
2109-2111	500,000	72,000	572,000
	$ 3,141,395	$ 4,392,090	$ 7,533,485

Maturities and interest on debt obligations for the next five years and in five-year periods for the discretely presented component units are as follows:

	Discretely Presented Component Units		
	Principal	Interest	Total
2019	$ 1,322	$ 426	$ 1,748
2020	2,993	395	3,388
2021	2,892	326	3,218
2022	1,256	267	1,523
2023	1,256	243	1,499
2024-2028	5,212	927	6,139
2029-2033	5,690	449	6,139
2034-2038	1,743	42	1,785
	$ 22,364	$ 3,075	$ 25,439

(dollars in thousands)

General receipts bonds are backed by the unrestricted receipts of the university, excluding certain items as described in the bond indentures.

The outstanding bond indentures do not require mandatory reserves for future payment of principal and interest. However, the university has set aside $331,292 for future debt service which is included in unrestricted net position.

The university has defeased various bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The defeased bonds for the primary institution are as follows:

	Amount Defeased	Amount Outstanding at June 30, 2018
General Receipts Bonds:		
Series 2008A	$ 26,945	$ 20,750
Series 2010A	13,050	4,720
Series 2010D	3,710	3,710
	$ 43,705	$ 29,180

Neither the outstanding indebtedness nor the related trust account assets for the above bonds are included in the university's financial statements.

Special-Purpose General Receipts Bonds

In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. The bond indenture agreement includes a debt covenant, requiring the university "to set rates, charges and fees in each Fiscal Year so as to cause Special Purpose Pledged Revenues to be in an amount not less than 1.10 times the aggregate debt service for the then-current Fiscal Year on all Special Purpose General Receipts Obligations." At June 30, 2018, the university is in compliance with this covenant. Condensed financial information for the Special Purpose Revenue Facilities is provided in Note 22.

Variable Rate Demand Bonds

Series 1997, 1999B1, 2001, 2003C, 2005B, 2008B, 2010E and 2014B variable rate demand bonds bear interest at rates based upon yield evaluations at par of comparable securities. The maximum interest rate allowable and the effective average interest rate from issue date to June 30, 2018 are as follows:

(dollars in thousands)

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.475%
1999B1	12%	1.268%
2001	12%	1.070%
2003C	12%	1.412%
2005B	12%	0.985%
2008B	12%	0.398%
2010E	8%	0.305%
2014B	not specified	0.516%

At the discretion of the university, the interest rate on the bonds can be converted to a fixed rate. The bonds may be redeemed by the university or sold by the bondholders to a remarketing agent appointed by the university at any time prior to conversion to a fixed rate at a price equal to the principal amount plus accrued interest.

The university's variable rate demand bonds mature at various dates through 2044. GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the statement of net position classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation No. 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $588,360 at June 30, 2018 and 2017.

Capital Lease Obligations

Some university equipment items and vehicles are financed as capital leases. The original cost and lease obligations related to these capital leases as of June 30, 2018 are $22,750 and $15,328, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2017 are $17,523 and $8,548, respectively.

Capitalization of Interest

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Total interest costs incurred for the years ended June 30, 2018 and 2017 for the primary institution were $122,281 and $124,240. Of these amounts, interest of $5,792 and $3,169 were capitalized. The remaining amounts of $116,489 and $121,071 for the years ended June 30, 2018 and 2017, respectively, are reported as interest expense in the statement of revenues, expenses and changes in net position.

(dollars in thousands)

NOTE 10 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the statement of net position. The total rental expense under these agreements was $23,638 and $24,836 for the years ended June 30, 2018 and 2017, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2018 are as follows:

Year Ending June 30,	Primary Institution	Discretely Presented Component Units
2019	$ 19,170	$ 7,056
2020	17,774	4,370
2021	16,426	4,023
2022	15,304	3,427
2023	14,616	3,257
2024-2028	46,432	28,715
2029-2033	21,903	-
2034-2038	2,266	-
2039-2043	1,449	-
2044-2048	1,630	-
2049-2053	1,409	-
2054-2058	1,382	-
2059-2063	1,382	-
2064 and beyond	817	-
Total minimum lease payments	$ 161,960	$ 50,848

NOTE 11 — COMPENSATED ABSENCES

University 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.

(dollars in thousands)

The university accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "termination payment method" which is set forth in Appendix C, Example 4 of the GASB Statement No. 16, *Accounting for Compensated Absences*. Under the termination method, the university calculates a ratio, Sick Leave Termination Cost per Year Worked, that is based on the university'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 of the university (mostly classified civil service employees) receive compensation time in lieu of overtime pay. Any unused compensation time must be paid to the employee at termination or retirement.

NOTE 12 — OTHER LIABILITIES

Other liability activity for the primary institution for the year ended June 30, 2018 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 177,207	$ 22,576	$ 14,779	$ 185,004	$ 14,779
Self-insurance accruals	129,870	336,012	342,446	123,436	49,297
Amounts due to third party payors	66,526	28,301	28,494	66,333	21,424
Obligations under life income agreements	34,308	-	1,580	32,728	3,350
Refundable advances for Federal Perkins loans	31,714	924	-	32,638	-
Other noncurrent liabilities	101,486	-	9,542	91,944	-
	$ 541,111	$ 387,813	$ 396,841	$ 532,083	$ 88,850

Other liability activity for the primary institution for the year ended June 30, 2017 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 171,012	$ 18,808	$ 12,613	$ 177,207	$ 12,613
Self-insurance accruals	143,023	316,403	329,556	129,870	48,631
Amounts due to third party payors	71,228	23,781	28,483	66,526	28,494
Obligations under life income agreements	33,225	2,783	1,700	34,308	3,619
Refundable advances for Federal Perkins loans	32,110	-	396	31,714	-
Other noncurrent liabilities	112,841	-	11,355	101,486	-
	$ 563,439	$ 361,775	$ 384,103	$ 541,111	$ 93,357

NOTE 13 – RENTALS UNDER OPERATING LEASES

The university is the lessor of certain land, buildings, office and retail space under operating lease agreements. Future minimum rental income from non-cancelable operating leases for the primary institution as of June 30, 2018 is as follows:

(dollars in thousands)

Year Ending June 30,		
2019	$	3,800
2020		3,173
2021		2,319
2022		2,022
2023		1,926
2024-2028		6,411
2029-2033		1,438
2034-2038		305
2039-2043		14
2044-2048		14
2049-2053		12
Total minimum future rentals	$	21,434

The discretely presented component units are the lessor of certain land, buildings, office and retail space under operating lease agreements. Future minimum rental income from non-cancelable operating leases as of June 30, 2018 is as follows:

Year Ending June 30,		
2019	$	3,674
2020		3,458
2021		2,928
2022		2,209
2023		1,977
2024-2028		5,029
Total minimum future rentals	$	19,275

NOTE 14 – OPERATING EXPENSES BY OBJECT

In accordance with requirements set forth by the Ohio Board of Regents, the university reports operating expenses by functional classification on the Statement of Revenues, Expenses and Other Changes in Net Position. Operating expenses by object for the primary institution for the years ended June 30, 2018 and 2017 are summarized as follows:

(dollars in thousands)

Year Ended June 30, 2018

	Primary Institution				
	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 680,084	$ 131,039	$ -	$ -	$ 811,123
Separately budgeted research	129,233	171,719	-	-	300,952
Public service	53,990	83,130	-	-	137,120
Academic support	138,079	44,373	-	-	182,452
Student services	81,649	24,111	-	-	105,760
Institutional support	129,178	81,513	-	-	210,691
Operation and maintenance of plant	30,761	92,864	-	-	123,625
Scholarships and fellowships	2,337	2,093	121,854	-	126,284
Auxiliary enterprises	182,760	139,389	-	-	322,149
OSU Health System	1,469,851	1,251,137	-	-	2,720,988
Depreciation	-	-	-	394,461	394,461
Total operating expenses	$ 2,897,922	$ 2,021,369	$ 121,854	$ 394,461	$ 5,435,605

Year Ended June 30, 2017

	Primary Institution				
	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 888,236	$ 118,175	$ -	$ -	$ 1,006,411
Separately budgeted research	340,784	156,724	-	-	497,508
Public service	104,285	70,816	-	-	175,101
Academic support	180,431	41,612	-	-	222,043
Student services	84,593	23,448	-	-	108,041
Institutional support	124,620	73,499	-	-	198,119
Operation and maintenance of plant	35,143	59,544	-	-	94,687
Scholarships and fellowships	7,263	1,697	121,109	-	130,069
Auxiliary enterprises	187,806	125,379	-	-	313,185
OSU Health System	1,397,568	1,198,229	-	-	2,595,797
Depreciation	-	-	-	374,615	374,615
Total operating expenses	$ 3,350,729	$ 1,869,123	$ 121,109	$ 374,615	$ 5,715,576

NOTE 15 — RETIREMENT PLANS

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

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.

(dollars in thousands)

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 university's proportionate share of these liabilities as of June 30, 2018 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 23,755,214	$ 15,548,439	
Proportion of the net pension liability - university	4.6%	9.4%	
Proportionate share of net pension liability	$ 1,081,053	$ 1,466,955	$ 2,548,009

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

	STRS-Ohio	OPERS	Total
Net OPEB liability - all employers	$ 3,901,631	$ 10,859,263	
Proportion of the net OPEB liability - university	4.6%	9.7%	
Proportionate share of net OPEB liability	$ 177,556	$ 1,055,239	$ 1,232,795

In addition, the university recognizes OPEB liability totaling $16,276 primarily related to death benefits for retirees.

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

	STRS-Ohio	OPERS	Total
Net pension liability - all employers	$ 33,473,014	$ 22,652,226	
Proportion of the net pension liability - university	4.5%	9.1%	
Proportionate share of net pension liability	$ 1,510,814	$ 2,054,548	$ 3,565,362

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

(dollars in thousands)

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 41,745	$ 2,277	$ 44,022
Changes in assumptions	236,438	171,962	408,400
Changes in proportion of university contributions	1,036	4,061	5,097
University contributions subsequent to the measurement date	74,173	99,914	174,087
Total	**$ 353,392**	**$ 278,214**	**$ 631,606**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 8,713	$ 34,978	$ 43,691
Net difference between projected and actual earnings on pension plan investments	35,676	332,347	368,023
Changes in proportion of university contributions	-	54	54
Total	**$ 44,389**	**$ 367,379**	**$ 411,768**

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

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 10,250	$ 822	$ 11,072
Changes in assumptions	-	76,832	76,832
Total	**$ 10,250**	**$ 77,654**	**$ 87,904**
Deferred Inflows of Resources:			
Changes in assumptions	14,303	-	14,303
Net difference between projected and actual earnings on OPEB plan investments	7,589	78,608	86,197
Total	**$ 21,892**	**$ 78,608**	**$ 100,500**

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

(dollars in thousands)

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 61,044	$ 3,296	$ 64,340
Changes in assumptions	-	329,038	329,038
Net difference between projected and actual earnings on pension plan investments	125,438	306,350	431,788
Changes in proportion of university contributions	921	1,163	2,084
University contributions subsequent to the measurement date	70,306	94,003	164,309
Total	**$ 257,709**	**$ 733,850**	**$ 991,559**
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 16,279	$ 16,279
Changes in proportion of university contributions	-	63	63
Total	**$ -**	**$ 16,342**	**$ 16,342**

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

	STRS-Ohio	OPERS	Total
2019	123,766	221,834	345,600
2020	96,547	(35,226)	61,321
2021	69,287	(141,775)	(72,488)
2022	19,404	(132,700)	(113,296)
2023	-	(503)	(503)
2024 and Thereafer	-	(796)	(796)
Total	**$ 309,004**	**$ (89,166)**	**$ 219,838**

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

	STRS-Ohio	OPERS	Total
2019	(2,573)	17,475	14,902
2020	(2,573)	17,475	14,902
2021	(2,573)	(16,251)	(18,824)
2022	(2,573)	(19,652)	(22,225)
2023	(676)	-	(676)
2024 and Thereafer	(675)	-	(675)
Total	**$ (11,643)**	**$ (953)**	**$ (12,596)**

(dollars in thousands)

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

	STRS-Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145
Benefit Formula	**Pensions** -- The annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. **OPEB** – STRS Ohio provides access to health care coverage for eligible retirees who participated in the Defined Benefit or Combined Plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees and prescription drugs and reimbursement of a portion of the monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2019. Pursuant to the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Benefit recipients contributed $339.1 million or 60% of the total health care costs in fiscal 2017 (excluding deductibles, coinsurance and copayments).	**Pensions** -- Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment. **OPEB** – The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility

(dollars in thousands)

	STRS-Ohio	OPERS
	Medicare Part D is a federal program to help cover the costs of prescription drugs for Medicare beneficiaries. This program allows STRS Ohio to recover part of the cost for providing prescription coverage since all eligible STRS Ohio health care plans include creditable prescription drug coverage. For the year ended June 30, 2017, STRS Ohio received $79.4 million in Medicare Part D reimbursements.	criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by using managed care, case management, and other programs. Additional details on health care coverage can be found in the Plan Statement in the OPERS 2017 CAFR. OPERS no longer participates in the Medicare Part D program as of December 31, 2016. OPERS will receive the final distribution of funds from the Medicare Part D program for calendar year 2016 in 2018. Total federal subsidies received for the year ended December 31, 2017 were $812,170.
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	Employee and member contribution rates are established by the OPERS Board and

	STRS-Ohio	OPERS
	Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. Under Ohio law, funds to pay health care costs may be deducted from employer contributions. For the year ended June 30, 2017, no employer allocation was made to the health care fund.	limited by Chapter 145 of the Ohio Revised Code. For 2016, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
Measurement Date	June 30, 2017	December 31, 2017 (OPEB is rolled forward from December 31, 2016 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** July 1, 2017 for pensions; June 30, 2017 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.45% **Inflation:** 2.50% **Projected Salary Increases:** 12.50% at age 20 to 2.50% at age 65 **Cost-of-Living Adjustments:** 0% effective July 1, 2017 **Payroll Increases:** 3.00% **Health Care Cost Trends:** 6%-11% initial; 4.50% ultimate	**Valuation Date:** December 31, 2017 for pensions; December 31, 2016 for OPEB **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.5% for pensions; 6.5% for OPEB **Inflation:** 3.25% **Projected Salary Increases:** 3.25% - 10.75% **Cost-of-Living Adjustments:** 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple. **Health Care Cost Trends:** 7.5% initial; 3.25% ultimate
Mortality Rates	Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.	Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year

(dollars in thousands)

	STRS-Ohio	OPERS
		for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.
Date of Last Experience Study	June 30, 2016	December 31, 2015
Discount Rate	**Pensions** -- The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017. **OPEB** -- The discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, a blended discount rate of 4.13%, which represents the long-term expected rate of return of 7.45% for the	**Pensions** -- The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. **OPEB** – A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The

(dollars in thousands)

	STRS-Ohio	OPERS
	funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58% for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.	projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.
Changes in Assumptions Since the Prior Measurement Date	**Pensions** -- The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience. **OPEB** -- The discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were	There has been no change in assumptions compared to prior year.

(dollars in thousands)

	STRS-Ohio	OPERS
	decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.	
Benefit Term Changes Since the Prior Measurement Date	**Pensions** – Effective July 1, 2017, the COLA was reduced to 0%. **OPEB** -- The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.	**Pensions** -- For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

	STRS-Ohio 1% Decrease	STRS-Ohio Current Rate	STRS-Ohio 1% Increase	OPERS 1% Decrease	OPERS Current Rate	OPERS 1% Increase
Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.45%)	Current Rate (7.45%)	1% Increase (8.45%)	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
	$ 1,549,653	$ 1,081,053	$ 686,328	$ 2,621,235	$ 1,466,955	$ 505,528
Sensitivity of Net OPEB Liability to Changes in Discount Rate	1% Decrease (3.13%)	Current Rate (4.13%)	1% Increase (5.13%)	1% Decrease (2.85%)	Current Rate (3.85%)	1% Increase (4.85%)
	$ 238,366	$ 177,556	$ 129,496	$ 1,401,965	$ 1,055,239	$ 774,788
Sensitivity of Net OPEB Liability to Changes in Medical Trend Rate	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
	$ 123,358	$ 177,556	$ 248,886	$ 1,009,663	$ 1,055,239	$ 1,102,370

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.

(dollars in thousands)

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

Combined Plans

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

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

Summary of Employer Pension and OPEB Expense

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

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	$ 74,356	$ 201,072	$ 60,366	$ 335,794
GASB 68 Pension Accruals	(481,055)	219,081		(261,974)
GASB 75 OPEB Accruals	(54,180)	74,701		20,521
Total Pension and OPEB Expense	**$ (460,879)**	**$ 494,854**	**$ 60,366**	**$ 94,341**

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

	STRS-Ohio	OPERS	ARP	Total
Employer Contributions	$ 70,373	$ 188,762	$ 56,425	$ 315,560
GASB 68 Accruals	49,919	298,941		348,860
Total Pension Expense	**$ 120,292**	**$ 487,703**	**$ 56,425**	**$ 664,420**

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

(dollars in thousands)

Both STRS Ohio and OPERS issue separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the two organizations.

STRS Ohio	OPERS
275 East Broad Street	277 East Town Street
Columbus, OH 43215-3371	Columbus, OH 43215-4642
(614) 227-4090	(614) 222-5601
(888) 227-7877	(800) 222-7377
www.strsoh.org	www.opers.org/investments/cafr.shtml

OSU Physicians Retirement Plan

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some subsidiaries make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was $5,191 and $4,619 for the years ended June 30, 2018 and 2017, respectively.

Employee contributions were $1,893 and $1,745 for the years ended June 30, 2018 and 2017.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2018, the university is committed to future contractual obligations for capital expenditures of approximately $330,460.

These projects are funded by the following sources:

State appropriations	$	98,122
Internal and other sources		232,338
Total	$	330,460

NOTE 17 — CONTINGENCIES AND RISK MANAGEMENT

The university is a party in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the university's financial position.

The university is self-insured for the Health System's professional malpractice liability, employee health benefits, workers' compensation and employee life, accidental death and dismemberment benefits. Additional details regarding these self-insurance arrangements are provided in Note 8. The university also carries commercial insurance policies for various property, casualty and excess liability risks. Over the past three years, settlement amounts related to these insured risks have not exceeded the university's coverage amounts.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the university have been infrequent in prior years.

NOTE 18 — PARKING LEASE AND CONCESSION AGREEMENT

On September 21, 2012, the university entered into a 50-year lease and concession agreement with QIC Global Infrastructure (QIC GI). CampusParc LP, a QIC GI affiliate, owns and operates the university's parking concession on QIC GI's behalf. Under the agreement, CampusParc operates, maintains and retains parking revenues from the university's parking lots and garages. This agreement also regulates the parking rates that may be charged and future increases in these rates. The university received lump-sum payments totaling $483,000 from QIC GI and used the proceeds to establish endowment funds, with income distributions internally designated to support student scholarships, faculty initiatives and research, transportation and sustainability and the university arts district.

The lump-sum payment under this service concession arrangement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were $426,176 and $435,807 at June 30, 2018 and 2017, respectively. The university reports the parking lots and garages as capital assets with a carrying amount of $124,508 and $124,417 at June 30, 2018 and 2017, respectively.

NOTE 19 — UTILITY SYSTEM LEASE AND CONCESSION AGREEMENT

On April 10, 2017, the university entered into a 50-year agreement to lease the university's utility system to Ohio State Energy Partners (OSEP) and grant it the exclusive right to operate the utility system and provide utility services to the Columbus campus. On July 6, 2017, the university received an upfront payment of $1,089,914. The upfront payment is reported as an Advance from Concessionaire and is being amortized as a reduction to operating expense (Operation and Maintenance of Plant) on a straight-line basis over the term of the agreement.

Under the agreement, OSEP operates, maintains and makes capital investments in the utility system and charges the university a Utility Fee, which includes fixed, variable and operating and maintenance (O&M) components. OSEP capital investments in the utility system are recognized as capital assets and a related long-term payable to the concessionaire. The fixed and O&M components of the Utility Fee are recognized as operating expense. The variable component of the Utility Fee will be recognized as a reduction in the long-term payable to the concessionaire and interest expense. For the year ended June 30, 2018, the university recognized fixed and O&M utility fees totaling $53,309. The carrying amounts of OSEP capital investments and related long-term payable to the concessionaire at June 30, 2018 were $10,316.

(dollars in thousands)

Related to this transaction, the university entered into an interest-rate swap agreement with a bank on April 10, 2017 for a notional amount of $397,000 to hedge interest-rate risk prior to the closing of utility lease and concession agreement. The university terminated the swap on May 26, 2017 and made a $15,713 payment to Barclays on July 6, 2017. This payment was reflected in the university's June 30, 2017 financial statements as a non-operating loss and a corresponding current liability.

NOTE 20 – COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a blended presentation. Condensed combining financial information for the years ended June 30, 2018 and 2017 is presented below.

Condensed Combining Information – Year Ended June 30, 2018

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 61,573	$ 5,054	$ 50,081
Capital assets, net	3,137	114	-
Other assets	1,084,966	637	-
Total assets	$ 1,149,676	$ 5,805	$ 50,081
Current liabilities	$ 3,177	$ 1,223	$ 43
Noncurrent liabilities	44,987	494	19,287
Amounts payable to the university	21,908	-	-
Deferred inflows	14,843	-	-
Total liabilities and deferred inflows	84,915	1,717	19,330
Net investment in capital assets	3,137	-	-
Restricted:			
Nonexpendable	877,276	-	-
Expendable	170,695	-	-
Unrestricted	13,653	4,088	30,751
Total net position	1,064,761	4,088	30,751
Total liabilities, deferred inflows and net position	$ 1,149,676	$ 5,805	$ 50,081

(dollars in thousands)

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position:			
Operating revenues:			
Other sales, services and rental income	$ 1,713	$ 13,088	$ 143
Total operating revenues	1,713	13,088	143
Operating expenses, excluding depreciation	21,333	12,937	171
Depreciation expense	242	55	-
Total operating expenses	21,575	12,992	171
Net operating income (loss)	(19,862)	96	(28)
Non-operating revenues and expenses:			
Gifts for current use	167,843	-	-
Net investment income (loss)	79,809	-	2,084
Other non-operating revenue (expense)	2,087	-	-
Net non-operating revenue (expense)	249,739	-	2,084
Capital contributions and additions to permanent endowments	71,591	-	-
Transfers from (to) the university	(223,325)	-	-
Change in net position	78,143	96	2,056
Beginning net position	986,618	3,992	28,695
Ending net position	$ 1,064,761	$ 4,088	$ 30,751
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (21,219)	$ (1,288)	$ (2,187)
Noncapital financing activities	25,033	-	-
Capital and related financing activities	15,904	-	-
Investing activities	(1,222)	(51)	(39)
Net increase (decrease) in cash	18,496	(1,339)	(2,226)
Beginning cash and cash equivalents	4,363	5,654	3,516
Ending cash and cash equivalents	$ 22,859	$ 4,315	$ 1,290

(dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2017

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 47,236	$ 6,252	$ 50,634
Capital assets, net	3,271	168	-
Other assets	1,002,456	585	-
Total assets	$ 1,052,963	$ 7,005	$ 50,634
Current liabilities	$ 3,748	$ 2,546	$ 44
Noncurrent liabilities	48,025	467	21,895
Amounts payable to the university	1,853	-	-
Deferred inflows	12,719	-	-
Total liabilities and deferred inflows	66,345	3,013	21,939
Net investment in capital assets	3,271	-	-
Restricted:			
Nonexpendable	824,383	-	-
Expendable	146,014	-	-
Unrestricted	12,950	3,992	28,695
Total net position	986,618	3,992	28,695
Total liabilities, deferred inflows and net position	$ 1,052,963	$ 7,005	$ 50,634

(dollars in thousands)

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position:			
Operating revenues:			
Other sales, services and rental income	$ 1,885	$ 10,730	$ 1,406
Total operating revenues	1,885	10,730	1,406
Operating expenses, excluding depreciation	20,586	10,787	193
Depreciation expense	247	-	-
Total operating expenses	20,833	10,787	193
Net operating income (loss)	(18,948)	(57)	1,213
Non-operating revenues and expenses:			
Gifts for current use	179,912	-	-
Net investment income (loss)	113,610	-	3,010
Other non-operating revenue (expense)	722	-	-
Net non-operating revenue (expense)	294,245	-	3,010
Capital contributions and additions to permanent endowments	79,229	-	-
Transfers from (to) the university	(235,448)	-	-
Change in net position	119,078	(57)	4,223
Net Position - Beginning of Year			
Beginning of year, as previously reported	879,763	4,049	24,472
Cumulative effect of accounting change	(12,223)	-	-
Beginning of Year, as restated	867,540	4,049	24,472
Ending net position	$ 986,618	$ 3,992	$ 28,695
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (19,578)	$ 1,817	$ (1,264)
Noncapital financing activities	(6,519)	(2,081)	-
Capital and related financing activities	26,771	(138)	-
Investing activities	1,195	62	3,023
Net increase (decrease) in cash	1,869	(340)	1,759
Beginning cash and cash equivalents	2,494	5,994	1,758
Ending cash and cash equivalents	$ 4,363	$ 5,654	$ 3,517

(dollars in thousands)

NOTE 21 – COMBINING INFORMATION FOR DISCRETELY PRESENTED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a discrete presentation. Condensed combining financial information for the years ended June 30, 2018 and 2017 is presented below.

Condensed Combining Information – Year Ended June 30, 2018

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 179,489	$ 5,331	$ 12,268	$ 1,810
Capital assets, net	27,209	93,867	13,185	298
Other assets	1,481	2,548	-	-
Amounts receivable from the university	12,853	-	4,133	-
Deferred outflows	-	-	56	-
Total assets and deferred outflows	$ 221,032	$ 101,746	$ 29,642	$ 2,108
Current liabilities	$ 18,599	$ 4,179	$ 4,500	$ 187
Noncurrent liabilities	13,046	26,328	5,076	-
Amounts payable to the university	20,011	81,741	8,420	372
Deferred inflows	-	-	52	-
Total liabilities and deferred inflows	51,656	112,248	18,048	559
Net investment in capital assets	13,282	90,382	8,188	(73)
Unrestricted	156,094	(100,884)	3,406	1,622
Total net position	169,376	(10,502)	11,594	1,549
Total liabilities, deferred inflows and net position	$ 221,032	$ 101,746	$ 29,642	$ 2,108

(dollars in thousands)

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position:				
Operating revenues:				
Grants and contracts	$ -	$ 11,093	$ 47,096	$ -
Sales and services of OSU Physicians	525,796	-	-	-
Other sales, services and rental income	-	-	-	9,466
Total operating revenues	525,796	11,093	47,096	9,466
Operating expenses, excluding depreciation	484,133	9,892	45,217	8,933
Depreciation expense	3,574	3,352	694	54
Total operating expenses	487,707	13,244	45,911	8,987
Net operating income (loss)	38,089	(2,151)	1,185	479
Non-operating revenues and expenses:				
Net investment income (loss)	826	122	291	-
Interest expense	(299)	(37)	(555)	-
Other non-operating revenue (expense)	(21,788)	1,598	114	(446)
Net non-operating revenue (expense)	(21,261)	1,683	(150)	(446)
Change in net position	16,828	(468)	1,035	33
Beginning net position, as previously reported	152,548	(10,034)	10,701	1,516
Cumulative effect of accounting change	-	-	(142)	-
Ending net position	$ 169,376	$ (10,502)	$ 11,594	$ 1,549
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 36,676	$ (562)	$ 3,417	$ 550
Noncapital financing activities	(21,790)	5,444	2,404	(448)
Capital and related financing activities	(7,509)	(9,909)	(3,686)	105
Investing activities	5,331	122	291	(65)
Net increase (decrease) in cash	12,708	(4,905)	2,426	142
Beginning cash and cash equivalents	115,624	7,349	2,353	401
Ending cash and cash equivalents	$ 128,332	$ 2,444	$ 4,779	$ 543

(dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2017

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 164,004	$ 9,581	$ 11,319	$ 1,485
Capital assets, net	24,330	88,410	9,341	86
Other assets	1,602	2,612	-	-
Amounts receivable from the university	8,663	-	4,002	-
Deferred outflows	-	-	155	-
Total assets and deferred outflows	$ 198,599	$ 100,603	$ 24,817	$ 1,571
Current liabilities	$ 12,719	$ 7,370	$ 7,724	$ 55
Noncurrent liabilities	13,931	25,373	382	-
Amounts payable to the university	19,401	77,894	6,000	-
Deferred inflows	-	-	10	-
Total liabilities and deferred inflows	46,051	110,637	14,116	55
Net investment in capital assets	9,640	86,363	9,341	86
Unrestricted	142,908	(96,397)	1,360	1,430
Total net position	152,548	(10,034)	10,701	1,516
Total liabilities, deferred inflows and net position	$ 198,599	$ 100,603	$ 24,817	$ 1,571

(dollars in thousands)

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position:				
Operating revenues:				
Grants and contracts	$ -	$ 12,693	$ 47,007	$ -
Sales and services of OSU Physicians	496,364	-	-	-
Other sales, services and rental income	-	-	-	8,935
Total operating revenues	496,364	12,693	47,007	8,935
Operating expenses, excluding depreciation	444,362	10,779	46,417	6,079
Depreciation expense	3,740	3,121	250	27
Total operating expenses	448,102	13,900	46,667	6,106
Net operating income (loss)	48,262	(1,207)	340	2,829
Non-operating revenues and expenses:				
Net investment income (loss)	215	103	163	-
Interest expense	(369)	(1,154)	(61)	-
Other non-operating revenue (expense)	(18,605)	(9,451)	-	(2,713)
Net non-operating revenue (expense)	(18,759)	(10,502)	102	(2,713)
Change in net position	29,503	(11,709)	442	116
Beginning net position	123,045	1,675	10,259	1,400
Ending net position	$ 152,548	$ (10,034)	$ 10,701	$ 1,516
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 58,225	$ 6,596	$ 174	$ 2,883
Noncapital financing activities	(18,604)	(1,519)	5,667	(2,714)
Capital and related financing activities	(5,049)	(3,742)	(4,587)	(70)
Investing activities	1,357	39	162	(92)
Net increase (decrease) in cash	35,929	1,374	1,416	7
Beginning cash and cash equivalents	79,695	5,975	937	394
Ending cash and cash equivalents	$ 115,624	$ 7,349	$ 2,353	$ 401

NOTE 22 – SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains, losses, assets and liabilities that can be identified. The university has one segment that meets the GASB reporting requirements.

The Office of Student Life operates student housing, dining and recreational sports facilities on the university's main and regional campuses. In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. Special Purpose Pledged Revenues include all revenues, fees, rentals, rates, charges, insurance proceeds and other moneys derived from the ownership or operation of these facilities. Special Purpose Pledged Revenues totaled $214,631 and $213,564 for the years ended June 30, 2018 and 2017, respectively.

Condensed financial information for the Special Purpose Revenue Facilities, before the elimination of certain intra-university transactions, as of and for the years ended June 30, 2018 and 2017 is as follows:

(dollars in thousands)

Segment Disclosure Information – Year Ended June 30, 2018 and June 30, 2017

	2018	2017
Condensed Statement of Net Position		
Assets and deferred outflows:		
Current assets	$ 26,645	$ 26,022
Capital assets	724,651	725,840
Other assets	-	2,356
Total assets	$ 751,296	$ 754,218
Liabilities and deferred inflows:		
Current liabilities	$ 7,751	$ 7,365
Amounts payable to the university	738,540	755,890
Total liabilities	746,291	763,255
Net position:		
Net investment in capital assets	(13,889)	(27,695)
Unrestricted	18,894	18,658
Total net position	5,005	(9,037)
Total liabilities and net position	$ 751,296	$ 754,218

	2018	2017
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Special-purpose pledged revenues - operating	$ 214,631	$ 213,564
Operating expenses, excluding depreciation	(145,243)	(141,323)
Depreciation expense	(34,103)	(32,604)
Operating income	35,285	39,637
Nonoperating revenues, net	(39,618)	(32,499)
Net income (loss) before transfers	(4,333)	7,138
Transfers from (to) other university units, net	18,375	(14,323)
Increase (decrease) in net position	14,042	(7,185)
Beginning net position	(9,037)	(1,852)
Ending net position	$ 5,005	$ (9,037)
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 85,641	$ 533,452
Capital and related financing activities	(87,477)	(565,713)
Investing activities	278	180
Net increase (decrease) in cash	(1,558)	(32,081)
Beginning cash and cash equivalents	27,161	59,242
Ending cash and cash equivalents	$ 25,603	$ 27,161

The Ohio State University
Required Supplementary Information on GASB 68 Pension Liabilities (Unaudited)
Year Ended June 30, 2018

The schedule of the university's proportionate shares of STRS-Ohio and OPERS net pension liabilities are presented below:

	2018		2017		2016		2015	
(dollars in thousands)	STRS-Ohio	OPERS	STRS-Ohio	OPERS	STRS-Ohio	OPERS	STRS-Ohio	OPERS
University's proportion of the net pension liability	4.6%	9.4%	4.5%	9.1%	4.5%	9.0%	4.4%	8.8%
University's proportionate share of the net pension liability	$ 1,081,053	$ 1,466,955	$ 1,510,814	$ 2,054,548	$ 1,238,470	$ 1,556,156	$ 1,070,914	$ 1,059,519
University's covered payroll	$ 412,149	$ 1,381,054	$ 392,797	$ 1,289,346	$ 388,309	$ 1,236,914	$ 381,669	$ 1,188,828
University's proportionate share of the net pension liability as a percentage of its covered payroll	262%	106%	385%	159%	319%	126%	281%	89%
Plan fiduciary net position as a percentage of the total pension liability	75.3%	84.9%	66.8%	77.4%	72.1%	81.2%	74.7%	86.5%

The schedule of the university's contributions to STRS-Ohio and OPERS are presented below:

	2018		2017		2016		2015	
(dollars in thousands)	STRS-Ohio	OPERS	STRS-Ohio	OPERS	STRS-Ohio	OPERS	STRS-Ohio	OPERS
Contractually required contribution	$ 74,356	$ 201,072	$ 70,373	$ 188,762	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contributions in relation to the contractually required contribution	$ 74,356	$ 201,072	$ 70,373	$ 188,762	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
University's covered payroll	$ 434,106	$ 1,421,367	$ 412,149	$ 1,334,350	$ 392,797	$ 1,260,366	$ 388,309	$ 1,208,710
Contributions as a percentage of covered payroll	17.1%	14.1%	17.1%	14.1%	17.1%	14.1%	16.9%	14.1%

The Ohio State University
Required Supplementary Information on GASB 75 Net OPEB Liabilities (Unaudited)
Year Ended June 30, 2018

The schedule of the university's proportionate shares of STRS-Ohio and OPERS net OPEB liabilities are presented below:

	2018	
(dollars in thousands)	**STRS-Ohio**	**OPERS**
University's proportion of the net OPEB liability	4.6%	9.7%
University's proportionate share of the net OPEB liability	$ 177,556	$ 1,055,239
University's covered payroll	$ 412,149	$ 1,381,054
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	43%	76%
Plan fiduciary net position as a percentage of the total OPEB liability	47.1%	54.1%

The Ohio State University
Supplementary Information on the Long-Term Investment Pool (Unaudited)
Year Ended June 30, 2018

The following section of the financial report provides additional information on the university's Long-Term Investment Pool, including a summary of changes in market value, investment returns and related expenses. Additional details on university investments, including asset allocations, endowment distribution policies, investment by type and risk disclosures, are provided in Notes 1 and 3 to the Financial Statements.

In 2018, the market value of the university's Long-Term Investment Pool – which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments – increased $958 million, to $5.21 billion at June 30, 2018. The Long-Term Investment Pool activity for 2018 is summarized below:

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments		Quasi-Endowments		
	University	**Foundation**	**Operating**	**Designated**	**Total**
Balance at June 30, 2017	**$ 1,062,321**	**$ 877,261**	**$ 1,299,780**	**$ 1,014,097**	**$ 4,253,459**
Net Principal Additions (Withdrawals)	9,038	54,158	(130,490)	877,783	810,489
Change in Fair Value	73,672	61,637	86,698	114,220	336,227
Income Earned	21,387	18,037	24,631	33,946	98,001
Distributions	(44,120)	(37,111)	(51,049)	(71,699)	(203,979)
Expenses	(18,062)	(15,232)	(20,801)	(28,668)	(82,763)
Balance at June 30, 2018	**$ 1,104,236**	**$ 958,750**	**$ 1,208,769**	**$ 1,939,679**	**$ 5,211,434**

Net principal additions (withdrawals) for gifted endowments include new endowment gifts and reinvestment of unused endowment distributions. **Change in fair value** includes realized gains and losses for assets sold during the year and unrealized gains and losses for assets held in the pool at June 30, 2018. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($64 million), University Development related expenses ($18 million) and other investment related expenses ($1 million).

Investment Returns and Expenses:

The investment return for the Long-Term Investment Pool was 7.7% for fiscal year 2018. The annualized investment returns for the three-year and five-year periods were 6.0% and 7.2%, respectively. These returns -- which are net of investment management expenses as defined by Cambridge Associates for its annual survey -- are used for comparison purposes with other endowments and various benchmarks. In addition to the $64 million of investment management expenses, which reduced the pool by 1.3% in fiscal year 2018, the $18 million of University

Development expenses and $1 million of other investment related expenses further reduced the pool by 0.4%.

Additional Information:

For more information on how the Long-Term Investment Pool is invested, please visit the Office of Investments website at: **investments.osu.edu**.

Additional details on university and foundation endowments, including balances for individual funds, are available on the Office of the Controller's website at:
go.osu.edu/EndowAdmin (click on the "Endowment Descriptions and Balances" link).

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

To the Board of Trustees of
The Ohio State University
Columbus, Ohio:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise The Ohio State University (the "University"), appearing on pages 22 to 88, which consist of the statements of net position as of June 30, 2018, and the related statements of revenues, expenses and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November X, 2018, which included a matter of emphasis paragraph concerning the University's change in the manner in which it accounts for postemployment benefits other than pensions and irrevocable split-interest agreements. The University is a component unit of the State of Ohio.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November X, 2018

Acknowledgements

The 2018 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller.

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Michael Papadakis – Interim Senior Vice President and Chief Financial Officer, Treasurer

Kristine G. Devine – Vice President for Operations and Deputy Chief Financial Officer

Board of Trustees

The expiration date of each trustee's term is given in parentheses.

Compliance Report

Board of Trustees
Audit and Compliance Committee

Compliance and Integrity Program

Office of University Compliance and Integrity

November 15, 2018

Compliance Report

Executive Summary

Committee Action: *For information and discussion. No vote is required.*

1. **Clery Act/Annual Safety Reporting**
   The Department of Education continues its enforcement efforts in this area. Recent enforcement actions indicate a new Department priority on ensuring (1) that all reportable Clery crimes are promptly reported to campus police and documented in the Daily Crime Log; and (2) that decisions regarding all potential Timely Warnings are appropriately documented, particularly in cases where a Timely Warning is not issued. The university is addressing these priorities.

2. **Concern Reporting**
   OUCI has continued its work to evaluate and improve university processes for receiving and responding to concerns, particularly those concerns raised by students. After inventorying 48 concern reporting channels used across campus and the OSU Wexner Medical Center, we have developed a set of standards and an assessment methodology, and have completed an assessment of six concern reporting channels. This assessment process, which has involved law students from Moritz College of Law, is in collaboration with the Office of Academic Affairs, as an extension of work initiated in the university's 2017 reaccreditation.

   Our assessments to date reveal strong existing processes, with several key opportunities for improvement in simplifying communication of channels to students, materiality assessments, and systemic reviews of reported concerns.

3. **Research Integrity**
   Efforts continue in this important area, highlighted by the university's hosting on September 23, 2018, of a national summit bringing together stakeholders from across the academic research community, including representatives of research institutions, academic journals, and federal sponsors.

4. **Resolution Agreement with Office for Civil Rights (OCR) [Title IX]**
   Our status remains unchanged:
   - The university has made no submission to OCR since the last Board meeting.
   - OCR provided the university with a request for materials related to the Sexual Civility and Empowerment (SCE) office, which closed on June 19, 2018.
   - OCR closed out its review of several prior university submissions. Additional items remain pending with OCR.

Compliance Report

1. CLERY ACT/ANNUAL SAFETY REPORTING

Applicable regulations and relevant enforcement actions
The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act) is a federal statute requiring universities participating in federal financial aid programs to maintain and disclose campus crime statistics and security information. The U.S. Department of Education provides extensive guidance interpreting Clery Act requirements, which essentially fall into four categories:

- Collection and classification of crime reports and statistics from law enforcement and Campus Security Authorities (CSAs);
- Publication of an Annual Security Report (ASR), and distribution of the ASR to the campus community by October 1 each year;
- Issuance of timely crime warnings (Public Safety Notices) and emergency alerts (BuckeyeAlerts), as appropriate to inform the campus community of safety risks; and
- Maintenance of appropriate records of security events through a Daily Crime Log and a Fire Log.

Fines under the Clery Act recently increased to $55,907 per violation, which can be assessed for each instance of a misreported crime. The Department of Education may initiate an enforcement review upon receipt of a complaint, based on media concerns, from a university's self-report, or through its routine audits. The Department's fine on Pennsylvania State University, following the Sandusky case, remains the largest fine of $2.4 million (under today's fine structure, that fine amount would be over $5 million).

The Department's published reports and audits provide substantial information regarding its enforcement priorities. Recent notable findings include sanctions on universities for failing to properly identify non-campus property (i.e., university-controlled locations off campus), and for failure to request crime statistics from external law enforcement agencies. The Department has also issued significant recent fines for a university's failure to consider a crime for a possible Timely Warning, failure to issue a Timely Warning in accordance with regulations, and failure to follow its stated policy regarding such consideration and issuance. More routine, long-standing areas of enforcement include:

- Inaccurate or incomplete daily crime and/or fire logs;
- Failure to publish or properly distribute the Annual Security Report or Annual Fire Safety report;
- Inadequate or incomplete statements of institutional policies; and
- Failure to meet Drug Free Schools and Campuses Act (DFSCA) requirements

OSU Clery Compliance Priorities for FY2019
Recent enforcement actions indicate the Department now expects universities with campus police to document all reports of Clery-reportable crimes in their Daily Crime Logs. This could indicate the Department seeks to simplify (and potentially expedite) its audit process, because Department auditors could then simply compare the university's Annual Security Report against its Daily Crime Log, rather than reviewing details of reportable crimes from all sources. In addition, recent enforcement actions indicate the Department is setting a higher expectation for documented decision-making on Timely Warnings, particularly in instances when a Timely Warning is not issued. We are addressing these new enforcement priorities in our compliance work in the current academic year.

In FY2018, the University finished implementing solutions for capturing student travel and properties controlled by the Office of Student Life and the Athletic Department. We are working on a solution to consistently identify and track travel and control of property for trips arranged by the individual academic colleges, as data captured by various existing processes (e.g., State Authorization, etravel, and Purchasing/procurement) does not capture the necessary information sufficiently for Clery purposes.

We are working with teams in the Enterprise Project to build the functionality for Campus Security Authority (CSA) identification at the position level into the Workday system. This will greatly improve the accuracy and consistency of our CSA list, and allow for greater ease in assessing awareness of reporting obligations and assigning and tracking completion of training.

In addition, the university is continuing to improve its Clery Compliance program through the following steps in the current academic year:

- Continue improvement of collection of data for non-campus property controlled by the university;
- Continue focus on assistance to regional campuses, and support the active partnership between OSUPD and administrators on those campuses;
- Develop an improved Campus Security Authority training video for BuckeyeLearn in 2019, and increase in-person training (30 trainings completed to date);
- Work with OSUPD to improve documentation of Timely Warning analyses for crimes that may present a serious or continuing threat; and
- Continue ongoing partnership with the Office of Student Life to support Drug Free Schools and Communities Act compliance.

In FY2018, we highlighted Clery Act compliance on Regional campuses as the area of greatest concern; significant efforts by both OUCI and OSUPD have reduced risk in this area. Three of the five regional campuses now have Clery Act Committees who meet quarterly and work as a team to identify Campus Security Authorities, track travel and control of non-campus property, review required policy statements, and publish the Annual Security Report. Progress has also been made in more clearly separating the responsibility of Clery compliance for our regional campuses which are co-located with other state colleges.

Finally, the Ohio Auditor of State recently conducted a review of Ohio's public colleges and universities in 2018 to ascertain efforts, confidence and competence relating to Clery Compliance obligations. The Auditor's Report, which was published on September 30, named five recommendations for new resources and controls at the state level:

- Improve Clery training by the Ohio Department of Higher Education or the Ohio Department of Public Safety for state institutions;
- Increase Clery compliance support, including a resource center and a help¬line for quick resolution of Clery Act questions;
- Initiate a state-facilitated online platform for state institutions to collaborate on Clery issues;
- Require state institutions to submit their Annual Security Reports to the Ohio Department of Public Safety, to enable the state to identify trends and compare crime rates among Ohio campuses and with those in other states, and to propose ways to reduce campus crime; and
- Require state institutions to publish on their websites the daily crime reports, as well as a map of recent crime activity, to allow users to see where crimes are occurring on campuses.

The university will continue to collaborate with the Department of Higher Education and its peer institutions as the Auditor of State's recommendations are evaluated.

Compliance Report

2017 Annual Security Report

The university released its Report on September 28, 2018. The Report is available on the university's Public Safety website. The Report's key data is summarized in the chart below:

Crime Reported	Year	Campus	Non-Campus	Public Property
Aggravated Assault	2017	8	13	0
	2016	17	1	5
Arson	2017	3	1	0
	2016	2	0	0
Burglary	2017	49	14	0
	2016	19	3	0
Motor Vehicle Theft	2017	6	12	0
	2016	12	5	3
Robbery	2017	7	4	0
	2016	7	2	5
Rape	2017	71	15	0
	2016	57	5	0
Fondling	2017	29	14	1
	2016	22	2	0
Domestic Violence	2017	21	5	0
	2016	10	2	0
Dating Violence	2017	44	4	3
	2016	17	3	0
Stalking	2017	58	1	0
	2016	48	1	0
Alcohol Law Arrests	2017	127	2	7
	2016	103	1	17
Drug Law Arrests	2017	41	9	1
	2016	31	5	7
Weapons Law Arrests	2017	8	2	0
	2016	4	0	0
Alcohol Law Referrals	2017	1844	20	1
	2016	1931	1	2
Drug Law Referrals	2017	313	7	0
	2016	259	1	0
Hate Crimes	2017	6	4	0
	2016	28	3	1

Note: Information in this table omits the following crimes due to zero reports in 2017: murder and non-negligent manslaughter, manslaughter by negligence, incest, statutory rape, and weapons law disciplinary referrals. The increase in Aggravated Assaults was due to an increase in allegations of date rape drugs; increased reports of Sexual Misconduct was due to improved awareness and training.

2. CONCERN REPORTING

Concern reporting is a critical foundation for an institution's ethical culture, because it demonstrates the willingness of students, faculty and staff to trust the institution. Building trust advances the university's mission of increasing integrity and accountability.

To achieve consistent concern reporting, the university needs individuals to be knowledgeable about available concern reporting processes, and to feel comfortable reporting concerns. Significantly, those to whom concerns are reported, and those who oversee reporting processes, must feel responsible to take action and possess appropriate expertise.

Students, faculty, and staff are encouraged to report concerns to a supervisor or another appropriate person in their department, college, or unit. In addition, for those who do not know where at the university specifically to raise a concern, there exists an anonymous reporting line hosted by EthicsPoint. Ohio State prohibits retaliation against any individual who reports or inquires about potential misconduct, and Compliance offers EthicsPoint as a channel to report concerns anonymously.

As previously reported, OUCI has inventoried the university's concern reporting channels, and has begun evaluating these channels. With the assistance of law students in our Regulatory Compliance course at the Moritz College of Law, we have drafted a protocol outlining standards applicable for all concern reporting channels, and developed an assessment methodology. We have also conducted a preliminary review of six of these channels, as reflected in the second chart below. Our goal is to increase student awareness of these avenues and improve the tracking and processing of student concerns across the various units.

PROCESS MATURITY SCALE

RATING	OVERSIGHT/GOVERNANCE	CONTROL DESCRIPTION	REPEATABILITY
Optimized	Leadership oversight is proactive	Controls in place; regular risk-based testing	Strategies to make processes more efficient
Managed	Leadership oversight is active	Controls in place; ad hoc testing	Reevaluation and updating of methods
Repeatable	Leadership oversight is continuous	Controls in place to cover requirements; no testing	Uniform and repeatable processes
Developing	Leadership oversight is sporadic	Some but not all controls in place; some controls out dated	Highly dependent on actions and knowledge of people close to the issue
Initial	No leadership oversight	No institutional controls	Ad hoc

CONCERN REPORTING CHANNEL EVALUATION

	Awareness and Intake	Evaluation	Concern Response	Systemic Review and Reporting	Leadership Engagement
Athletics	Optimized	Managed	Managed	Managed	Managed
Environmental Health and Safety	Managed	Repeatable	Managed	Developing	Managed
Ethics	Managed	Managed	Managed	Managed	Managed
OSUP	Repeatable	Repeatable	Managed	Developing	Managed
Internal Audit	Managed	Managed	Optimized	Managed	Managed
Student Financial Aid	Repeatable	Managed	Managed	Managed	Optimized

Additionally, our preliminary review identified areas of immediate opportunity for improvement:

- Unit websites should prominently identify and explain the appropriate channel to raise a concern, and link to a central concern reporting resource;
- Units should implement a consistent rating system to more systematically and promptly elevate materially significant concerns;
- Units should provide leadership with regular reports on systemic issues identified through concerns; and
- Ongoing efforts under the Office of Academic Affairs to identify systemic issues affecting students, identified across channels, should be continued.

OUCI will continue to work with the Office of Academic Affairs on this initiative.

3. RESEARCH INTEGRITY

Compliance with federal regulations in investigating allegations of research misconduct.

The Office of Research Compliance has added expertise and new prevention efforts, and in particular continued its focus on ensuring that all researchers take the CITI Responsible Conduct of Research (RCR) training. The Office is also a part of a newly formed Big Ten Academic Alliance working group to improve RCR training, generate additional training resources, share "best practices," and develop metrics for assessing training impact and effectiveness.

In addition, on September 23, 2018, the university hosted a national summit to bring together stakeholders (Research Integrity Officers, Senior Institutional Officials, representatives of federal sponsors, members of the media, and academic journal editors) to discuss challenges and solutions to increasing research integrity. The conference, which was very well-attended, reinforced ongoing institutional collaboration in research integrity initiatives.

The Office of Research is continuing work on major revisions to the OSU Research Misconduct Policy and processes to incorporate suggestions from external review and new best practices. It is also working to revise the OSU Research Data Policy and associated Senate Rules. This work will occur over the academic year. The Office of Research Compliance also is working with the University Research Committee (URC) to draft Authorship Guidelines and to require that all OSU authors submit an authorship contribution declaration for each publication.

4. RESOLUTION AGREEMENT WITH OFFICE FOR CIVIL RIGHTS (OCR): STATUS

Activity	Steps	Status				
		2014-15	2015-16	2016-17	2017-18	
Title IX Coordinator	✓ Published detailed statement outlining the roles and responsibilities of Ohio State's Title IX Coordinator (11/15/14)	Complete	Complete	Complete	Complete	• All requirements met.
Document Maintenance	✓ Created a coordinated document management process for all Title IX complaints (12/15/14)	Complete	Complete	Complete	Complete	• All requirements met.

Compliance Report

Activity	Steps	Status				
Policies	✓ Revised Notice of Nondiscrimination and post online as appropriate (10/15/14) ✓ Revised "Reporting Sexual Assault" link on Campus Police website (10/15/14) ✓ Reviewed and revised all sexual harassment policies for consistency (10/15/14) ✓ Sexual Misconduct policy taken from interim to final status (effective 8/23/16 per President's Cabinet). Revised the Code of Student Conduct consistent with the revised Sexual Misconduct policy, BOT approved 4/8/16 ✓ Submitted evidence of policy communications in nineteenth progress report (10/15/16) ✓ Submitted annual information on complaints during academic year to OCR (6/10/16) ✓ Submitted annual information on complaints during academic year to OCR (6/15/17)	Complete	On Track	On Track	On Track	• Submitted revised Code of Student Conduct and final Sexual Misconduct policy to OCR in 8/5/16 status report. Submitted proof of how updated policy was communicated to Ohio State community in 10/15/16 status report. • Submitted information on AY 2015-2016 complaints to OCR in 6/10/16 status report; **awaiting OCR feedback.** • Submitted information on AY 2016-2017 complaints to OCR in 6/15/17 status report; **awaiting OCR feedback.**
Training	✓ Reviewed Student Wellness Center programming to ensure consistency with Resolution Agreement standards (12/15/14) ✓ Developed Title IX Coordinator and investigator training (12/15/14) ✓ Identified Title IX training module for employees (12/15/14) ✓ Reviewed and revised orientation program and materials for incoming students (12/15/14) ✓ Verified annual Title IX training conducted during previous calendar year (6/10/16) ✓ Provide training to specific groups identified in climate survey (annual)	Complete	Complete	Complete	On Track	• Revised training materials approved by OCR in their response on 4/14/2017. • Submitted evidence of Title IX training conducted during previous calendar year to OCR in 6/10/16 status report. • Submitted documentation on training provided to specific groups identified in both the AY14-15 and AY15-16 climate surveys in 10/15/16 status report. • Provided verification of training to specific groups informed by AY16-17 results campus climate survey results in the 1/31/18 status report.
Climate Assessment and Response	✓ Added OHR representative to Sexual Violence Consultation Team (1/15/15) ✓ Established campus working group on Title IX and climate survey (9/30/14) ✓ Reviewed last 2 years of sexual harassment complaints (12/15/14) ✓ Developed recommended actions as appropriate based on review (12/15/14) ✓ Developed and conducted annual climate survey (3/23-4/22/16) ✓ Developed and conducted annual climate survey (2/5-3/10/17)	Complete	On Track	On Track	On Track	• Submitted results of AY15-16 climate survey and written recommendations based on results in 1/15/17 status report; **awaiting OCR feedback**. • Developed/disseminated AY16-17 climate survey. As noted in 1/15/17 report, written recommendations submitted before January 2018.

Compliance Report

Activity	Steps	Status				
	✓ Analyze survey results to identify need for additional actions and training as appropriate (annual)					• Submitted proof of AY16-17 climate survey dissemination in 6/15/2017 status report. • Results of the AY16-17 climate survey and recommendations sent to OCR in 1/31/18 status report.
Student-Focused Remedies	✓ Reviewed last 3 years of sexual harassment complaints for prompt and equitable investigation (1/15/15) ✓ Take appropriate action to address identified problems (within 30 days of OCR approval)	Complete	Complete	N/A	N/A	• Reported findings to OCR in 2/27/15 status report and 9/15/15 addendum; submitted documentation of identified "process improvements" to address issues in the addendum in 8/5/16 status report. Approved by OCR in their response on 4/14/17.
Marching Band Investigation	✓ Developed timetable for corrective actions (11/1/14) ✓ Submit quarterly progress report to OCR (beginning 10/15/14)	Complete	Complete	On Track	On Track	• Continuing implementation. • 6/15/2017 status report included documentation addressing ongoing climate surveys with respect to the marching band; **awaiting OCR feedback**. • Awaiting to hear from OCR as to whether one final progress report is required to be included in a future status report.

The Ohio State University

November 2018 Board Meeting
FY19 | Through October 2018

AUDIT AND COMPLIANCE COMMITTEE	2015-16	2016-17	2017-18	Current Status
A. Strategic Risk Mitigation Effectiveness				
1. Education (risks related to decrease in academic standing; harm in ability to attract faculty/students)	↔	↑	↔	↑
2. Scholarship (challenges to ability to perform significant academic or scientific research)	↓	↑	↔	↔
3. Information Technology (inability to store, develop, transmit, or protect data)	↔	↔	↑	↑
4. Student Life (inability to maintain an environment conducive to student life)	↔	↔	↔	↑
5. Athletics (risk of disruption to Athletics operations, including significant NCAA violation)	↔	↔	↑	↔
6. Medical (significant reduction in performance of the health system and related colleges)	↑	↔	↑	↑
7. Financial (inability to reach capital, revenue, or cost containment objectives)	↔	↔	↔	↔
8. Physical Environment (loss of infrastructure; major event impacting ongoing operations, including campus safety)	↔	↔	↑	↔
9. Government, Community and Affiliates (failure to monitor and develop government, community, or affiliate relationships)	↓	↑	↓	↑
10. Talent and Culture (failure to attract, develop, or retain talent)	↔	↔	↔	↔
11. Advancement (events impacting Ohio State brand, alumni relationships, or advancement objectives)	↓	↔	↑	↔
12. Compliance (failure to meet regulatory, legal, or policy requirements not captured in above categories)	↔	↑	↑	↑

	2014-15	2015-16	2016-17	2017-18	2018-19 [1]
B. Public Records[2]					
1. Number of records requests closed (3-year average: 899)	769	842	964	890	472
2. Average days to fill all records requests	21	15	15.8	19.5	13.5
C. Internal Investigations (rated 4 or 5)					
1. Number of investigations opened in the fiscal year	20	17	17	26	1
2. Number of investigations closed in the fiscal year	16	19	15	21	5
3. Percent of closed investigations with findings	31%	52%	27%	21%	21%
D. Regulatory Actions[3] (rated 4 or 5)					
1. Number of current regulatory actions	7	10	12	11	14
E. Internal Audit					
1. Number of audits cleared at second follow-up during the fiscal year		11	9	11	2
2. Number of audits open after second follow-up or cleared at third follow-up or later during the fiscal year		2	4	14	14

COMMENTS & FOOTNOTES

[1]Includes data from 7/1/18 through 10/15/18

[2]Processed by Public Records Office only

[3]Includes audits, fines, probations, sanctions, warnings, or other similar actions

Mitigation Effectiveness Rating

- Meets or Exceeds Goal
- Caution
- Below Goal - Action Needed

Trend

- ↑ Environment/Performance Improving
- ↔ No Significant Change/On Track
- ↓ Environment/Performance Worsening