THE OHIO STATE UNIVERSITY

2019 Annual Financial Report

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Message from the President and CFO

Dr. Michael V. Drake, President

Michael Papadakis, Senior Vice President and CFO

OHIO STATE HAS UNPRECEDENTED AND MEASURABLE MOMENTUM, with many of our most important indicators at levels higher than at any point in our history. From the academic preparedness and diversity of our students to graduation rates, research funding, patient care, donor support and more, we are advancing our land-grant mission to uplift the many communities we serve.

As part of these university-wide efforts, we continue to focus on the five pillars of our Time and Change strategic plan, including operational excellence and resource stewardship.

Highlights of targeted investments include:

Innovative partnerships
Through Ohio State's comprehensive energy management partnership, which generated $1.165 billion in resources, the university has launched unprecedented financial aid, teaching excellence and sustainability programs. Plans continue forward on the Energy Advancement and Innovation Center — a hub for faculty, students, alumni, local entrepreneurs and industry experts to work together on the next generation of smart energy systems, renewable energy and green mobility solutions. The project is a cornerstone of the partnership with Ohio State Energy Partners, which committed $50 million toward the center.

Access and affordability
By summer 2020, the university will have contributed $200 million in additional need-based aid for low- and moderate-income Ohioans since 2015. This aid, generated through administrative efficiencies and innovative funding strategies, has benefited more than 40,000 Buckeyes and their families.

Because of operational efficiency programs, Ohio State has saved more than $200 million — money that the university will reinvest in education.

HIGHLIGHTS:

President's Affordability grants support more than 15,000 Ohio students from low- and moderate-income families.

The Buckeye Opportunity Program covers tuition for Ohio students who qualify for Pell grants.

The Digital Flagship partnership puts iPads — and learning technology — in the hands of 24,000 students.

The University Institute for Teaching and Learning supports faculty as they explore evidence-based learning approaches.

Message from the President and CFO

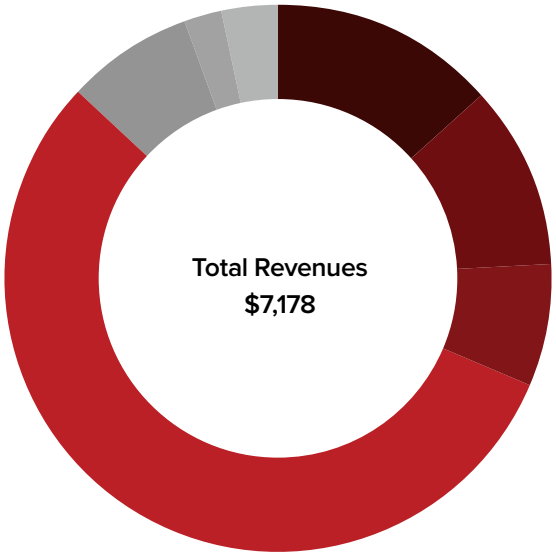
Buckeye Opportunity Program
The program, which began in Columbus in fall 2018 and expanded to regional campuses in spring 2019, ensures that Ohio students who qualify for Pell Grants receive an aid package that covers the full cost of tuition and mandatory fees. Approximately 4,000 students have benefited.

Digital Flagship
Ohio State's comprehensive digital learning initiative, a collaboration with Apple, has provided more than 23,000 incoming first-year students with a learning-technology suite since 2018. Now in its second year, Digital Flagship provides new learning technology, enables novel approaches to teaching and creates 21st-century learning opportunities across Ohio State's campuses and throughout the communities it serves.

Teaching Support Program
The University Institute for Teaching and Learning (UITL) is recognized nationally for implementing a research-based survey instrument on effective teaching practices across the entire institution. More than 75% of full-time faculty in colleges that serve undergraduates have completed the first component of UITL's Teaching Support Program. The aim of this program, funded through our energy partnership, is to provide students with even more innovative and impactful learning experiences.

Academic health care
The Wexner Medical Center is expanding access to high-quality health care in the region to meet fast-changing demands. A new hospital and outpatient care center are planned for Ohio State's Columbus campus along with an interdisciplinary health sciences center. The university is also advancing plans for outpatient care centers in Dublin, New Albany and Powell. All of these projects reflect the quality and transformational growth of Ohio State's medical enterprise.

REVENUE SOURCES FISCAL 2019 UNIVERSITY BUDGET (in millions)



Tuition	$970
Grants and contracts	782
Sales and services	506
Patient care	3,993
State appropriations	535
Gifts	160
Net investment income	232

Message from the President and CFO

Campus of the future
Ohio State is developing best-in-class facilities across disciplines to support collaboration and advance academic and research excellence. Additional Framework 2.0 projects include: the Arts District, envisioning high-quality, modern learning environments while opening the university's front door to the heart of the University District; the Interdisciplinary Research Facility to serve as an anchor for Ohio State's future West Campus Innovation District; and more.

What Ohio State does matters. Together, we will continue to define what it means to be a leading national flagship public research university in the 21st century.

Michael V. Drake, MD
President

Michael Papadakis
Senior Vice President and CFO

Rendering of Arts District


Rendering of Interdisciplinary Research Facility

Report of Independent Auditors

Report of Independent Auditors

To the Board of Trustees of
The Ohio State University

We have audited the accompanying financial statements of the primary institution and of the aggregate discretely presented component units, of The Ohio State University (the "University"), a component unit of the State of Ohio, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. 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 The Ohio State University as of June 30, 2019 and 2018, 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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Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 7 through 20, the Required Supplementary Information on GASB 68 Pension Liabilities on page 84 and the Required Supplementary Information on GASB 75 Net OPEB Liabilities on page 85 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 85 through 86 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 audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

November 22, 2019

Management's Discussion and Analysis (Unaudited)

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, 2019, with comparative information for the years ended June 30, 2018, and June 30, 2017. 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 68,000 students, 7,000 faculty members and 27,000 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, 168 master's degree programs, 114 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 comprises 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 Wexner Medical Center's flagship hospital is a leader in minimally invasive surgery, a Level I Trauma Center and one of the busiest kidney and pancreas transplant centers in the world.
- **Arthur G. James Cancer Hospital and Solove Research Institute ("The James"):** one of the nation's premier centers for prevention, detection and treatment of cancer.
- **Richard M. Ross Heart Hospital ("The Ross"):** a leader in cardiology and heart surgery, the Ross Heart Hospital is the only nationally ranked heart hospital in the area, according to *U.S. News & World Report*.
- **OSU Harding Hospital:** offers the most comprehensive inpatient and outpatient mental health and behavioral health services in central Ohio.
- **University Hospital East:** offers renowned Ohio State services in orthopedic care, emergency services, cancer care, addiction services, ear, nose and throat care, heart care, radiology and imaging services, rehabilitation and wound healing.
- **Dodd Hall:** home to Ohio State's nationally recognized and accredited rehabilitation inpatient program, specializing in stroke, brain and spinal cord rehabilitation.
- **Brain and Spine Hospital:** home to central Ohio's top-ranked Neurology/Neurosurgery program, according to *U.S. News & World Report*. Patients benefit from the expertise of a world-renowned team of doctors, nurses and scientists, each specializing in just one disorder.
- **Ambulatory Services:** offering primary care and many specialized health services in numerous convenient locations throughout Ohio. Primary care, sports medicine, orthopedics, mammography, imaging, wound care and other specialties are provided with the compassionate and nationally ranked expert care that is synonymous with The Ohio State University Wexner Medical Center.

Management's Discussion and Analysis (Unaudited)

The Health System provided services to approximately 64,500 adult inpatients and 1,915,000 outpatients during fiscal year 2019 and 64,500 adult inpatients and 1,810,000 outpatients during fiscal year 2018.

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)
- Pelotonia (a new fundraising organization operating exclusively for the benefit of the university – operations of the original Pelotonia LLC organization will be transferred to the new Pelotonia organization in FY2020)

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 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 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

Management's Discussion and Analysis (Unaudited)

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, 2019, with comparative information as of June 30, 2018. 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 or at NAV, as applicable. 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 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, 2019, with comparative information for the year ended June 30, 2018. 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, 2019, with comparative information for the year ended June 30, 2018. 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.

Management's Discussion and Analysis (Unaudited)

Financial Highlights and Key Trends

In 2019, the university's share of OPERS and STRS-Ohio net pension liabilities increased $1.17 billion, to $3.72 billion at June 30, 2019, primarily due to a combination of negative investment returns for OPERS and reductions in OPERS long-term assumed rate of return on pension plan investments. Health System operating revenues grew $328 million, to $3.43 billion in 2019. Growth in surgical cases, increased chemotherapy and pharmaceutical volumes and increased bed capacity contributed to the growth in operating revenue. Educational and general expenses increased $667 million, to $2.67 billion in 2019, primarily due to a $557 swing in expenses associated with pension and other post-employment benefit (OPEB) liabilities. University investments yielded $230 million of net investment income in 2019, down from $439 million in 2018. Total net position increased $112 million, to $5.43 billion at June 30, 2019, primarily due to strong Health System operating results.

Demand for an Ohio State education and outcomes for students remain strong. 68,100 students were enrolled in autumn 2018, up 1,656 students compared to autumn 2017. 95% of the freshmen enrolled in autumn 2017 returned to Ohio State in autumn 2018. Over 64% of students graduated within four years, and over 83% graduated within six years.

The following sections provide additional details on the university's 2019 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)	2019	2018	2017
Cash and temporary investments	$ 3,308,174	$ 3,023,554	$ 2,230,609
Receivables, inventories, prepaids and other current assets	872,714	845,332	757,389
Total current assets	4,180,888	3,868,886	2,987,998
Restricted cash	492,033	564,656	666,032
Noncurrent notes and pledges receivable, net	124,901	112,019	108,073
Net other post-employment benefit receivable	74,520	–	–
Long-term investment pool	5,256,759	5,211,434	4,253,459
Other long-term investments	219,455	163,946	143,638
Capital assets, net of accumulated depreciation	5,268,363	5,043,222	4,883,584
Total noncurrent assets	11,436,031	11,095,277	10,054,786
Total assets	15,616,919	14,964,163	13,042,784
Deferred outflows	1,155,735	739,619	1,014,812
Total assets and deferred outflows	$ 16,772,654	$ 15,703,782	$ 14,057,596
Accounts payable and accrued expenses	$ 591,844	$ 579,363	$ 524,754
Deposits and advance payments for goods and services	281,886	274,401	223,880
Current portion of bonds, notes and lease obligations	618,302	640,589	651,984
Other current liabilities	112,259	105,021	87,708
Total current liabilities	1,604,291	1,599,374	1,488,326
Noncurrent portion of bonds, notes and lease obligations	2,543,360	2,582,017	2,640,142
Net pension liability	3,715,058	2,548,009	3,565,362
Net other post-employment benefits liability	1,339,383	1,249,521	–
Advance from concessionaire	1,024,555	1,046,342	–
Other noncurrent liabilities	434,885	383,681	383,394
Total noncurrent liabilities	9,057,241	7,809,570	6,588,898
Total liabilities	10,661,532	9,408,944	8,077,224
Deferred inflows	677,046	972,224	484,007
Net investment in capital assets	2,605,381	2,376,795	2,259,207
Restricted:			
Nonexpendable	1,580,115	1,551,278	1,473,074
Expendable	1,303,269	1,328,793	1,190,162
Unrestricted	(54,689)	65,748	573,922
Total net position	5,434,076	5,322,614	5,496,365
Total liabilities, deferred inflows and net position	$ 16,772,654	$ 15,703,782	$ 14,057,596

Management's Discussion and Analysis (Unaudited)

During the year ended June 30, 2019, **cash and temporary investment** balances increased $285 million, to $3.31 billion, primarily due to strong health care operating cash flows. 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 $73 million, to $492 million at June 30, 2019, 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 increased $16 million, to $635 million at June 30, 2019. Increases in Health System patient receivables, tuition receivables and receivables for departmental earnings operations were partially offset by a decrease in receivables related to the federal direct-lending program. **Inventories and prepaid expenses** increased $8 million, to $134 million at June 30, 2019, primarily due to increases in Health System pharmaceutical inventories.

The fair value of the university's **long-term investment pool** (LTIP) increased $45 million, to $5.26 billion at June 30, 2019. The increase is primarily due to $192 million of additions to quasi-endowment funds, $107 million of interest and dividend income and a net $7 million increase in the fair value of LTIP investments. These increases were partially offset by $217 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 $5 million, to $44 million at June 30, 2019, reflecting an increase in securities lending activity in 2019. 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 $56 million, to $220 million, at June 30, 2019, primarily due to an unrealized gain in funds invested with Drive Capital.

Capital assets, which include the university's land, buildings, improvements, equipment and library books grew $225 million, to $5.27 billion at June 30, 2019. 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 $19 million, to $413 million in 2019.

Health System capital expenditures approximated $232 million for facilities, infrastructure improvement, land and equipment purchases. The university capitalized $87 million of equipment and library books, and $61 million related to the Workday ERP Enterprise project. University capital construction and renovation expenditures were approximately $323 million primarily in academic buildings, Athletics, maintenance of existing facilities, Student Life and other auxiliary operations.

The $52 million first phase of the Cannon Drive project elevated and straightened the road between King Avenue and John Herrick Drive. The Health System completed a $39 million project to build out shelled space of the 10th and 12th floors of the James

Management's Discussion and Analysis (Unaudited)

Cancer Hospital to create 72 ICU beds. The 700 Ackerman facility underwent a $22 million renovation to house OSU Physicians, Central Scheduling and Customer Service, Corporate Operations and Compliance, and the OSU Health Plan. The $49 million Covelli Multi-Sport Arena and the $42 million Schumaker Student-Athlete Development Complex were two major Athletics projects completed during the fiscal year. The arena houses the men's and women's varsity volleyball, fencing, wrestling and gymnastics matches and the student-athlete facility houses state-of-the-art athletic training programs and cardio equipment. In addition, the $20 million airport project to expand and modernize the existing field operations base was completed in the fall of 2018. The $31 million Schottenstein Center project opened the north concourse, renovated walls and lighting, and constructed men's and women's basketball offices. A $36 million Ohio Stadium project is nearly complete and includes power upgrades, suite box expansion and renovation. The renovation of C-deck and new suite and loge addition are nearing completion.

The OSU Health System has major construction projects currently underway or in advanced planning stages including:

- A new inpatient hospital with up to 840 beds to replace and expand upon the original Rhodes and Doan Halls.
- A $95 million garage for the new inpatient hospital
- A $45 million sterile supply building to support the new hospital and ambulatory facilities
- A $345 million West Campus outpatient ambulatory facility
- A $138 million regional ambulatory facility to the northeast on Hamilton Road
- A regional ambulatory facility to the northwest in Dublin

Major academic facility projects currently underway include:

- The Arts District – Design work is underway on the $161 million project to be constructed on the west side of High Street between 15th and 18th Avenues. The project includes new learning environments for the School of Music and the Department of Theatre, a Moving Image Production program and student gathering and support spaces. The project will also extend Annie and John Glenn Avenue from College Road to High Street and is expected to finish in 2021.
- 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.
- 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 were slated for completion in the fall of 2019.
- Wooster Laboratory building – Construction is underway on a $34 million entomology research facility at the Wooster campus. The project is slated for completion in the spring of 2020.
- Health Sciences Faculty Office and Optometry clinic – Construction has begun for a new $36 million facility at the corner of 11th and Neil Avenues.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $327 million at June 30, 2019.

Accounts payable and accrued expenses were up $12 million, to $592 million at June 30, 2019, reflecting increases in accrued compensation and benefits and retirement contributions payable, which were partially offset by a decrease in payables to vendors for supplies and services. **Deposits and advance payments for goods and services**

increased $7 million, to $282 million, primarily due to increases in unearned tuition revenues and advance payments from sponsors of research projects.

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 years ended June 30, 2019 and 2018, the university recognized fixed and O&M utility fees totaling $56 million and $53 million, respectively. The carrying amount of OSEP capital investments and related payable to the concessionaire at June 30, 2019, and June 30, 2018, were $42 million and $10 million, respectively.

University debt, in the form of **bonds, notes and capital lease obligations,** decreased $61 million, to $3.16 billion at June 30, 2019, reflecting repayments of bond principal. There were no bond issuances in 2019.

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 $575 million and $588 million at June 30, 2019 and 2018, 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. A related accounting standard, GASB Statement No. 75, requires employers participating in other post-employment benefit (OPEB) plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. OPEB benefits consist primarily of post-retirement health care. 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 2019, the university's share of OPERS and STRS-Ohio net pension liabilities increased $1.17 billion, to $3.72 billion at June 30, 2019. The increase relates primarily to OPERS net pension liabilities. In calendar year 2018, OPERS reduced its long-term assumed rate

Management's Discussion and Analysis (Unaudited)

of return on pension plan investments from 7.5% to 7.2%, increasing total pension liabilities for the system. In addition, OPERS realized a 2.99% negative return on defined benefit plan investments for the period. STRS net pension liabilities were relatively stable in 2019. Deferred outflows related to pensions increased $386 million, to $1.02 billion at June 30, 2019, and deferred inflows related to pensions decreased $302 million, to $110 million at June 30, 2019. The swing in deferrals relates primarily to OPERS projected vs. actual investment returns. These deferrals will be recognized as pension expense in future periods.

In 2019, the university also saw significant changes in its share of OPERS and STRS-Ohio net OPEB assets and liabilities. OPERS net OPEB liabilities increased $266 million, to $1.34 billion at June 30, 2019, primarily due to a negative 5.76% return OPERS health care investments in calendar 2018. The university's share of STRS-Ohio OPEB liabilities swung from a $178 million net OPEB liability to a $75 million net OPEB asset at June 30, 2019, reflecting a combination of reductions in retiree health care benefits, an increase in the discount rate used to calculate total OPEB liabilities and a 9.57% positive investment return in fiscal 2018. Deferrals related to OPEB were relatively stable in 2019.

Total pension and OPEB expense recognized by the university was $841 million in 2019. Total pension and OPEB expense includes $358 million of employer contributions and $483 million of expense accruals related to the net increase 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 $417 million at June 30, 2019, 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 university entered into a 50-year comprehensive energy management agreement with Ohio State Energy Partners (OSEP) and received a $1.09 billion upfront payment. $820 million of the upfront proceeds have been invested in the university's Long Term Investment Pool. The remainder of the upfront proceeds will be used to finance capital projects. 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. ***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.

Management's Discussion and Analysis (Unaudited)

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

	2019	2018	2017
Operating Revenues:			
Tuition and fees, net	$ 969,633	$ 935,893	$ 927,317
Grants and contracts	732,253	698,847	677,361
Auxiliary enterprises sales and services, net	339,615	328,692	309,497
OSU Health System sales and services, net	3,432,271	3,103,891	2,853,177
Departmental sales and other operating revenues	201,783	183,823	204,091
Total operating revenues	5,675,555	5,251,146	4,971,443
Operating Expenses:			
Educational and general	2,665,355	1,998,165	2,432,201
Auxiliary enterprises	361,346	322,149	313,185
OSU Health System	3,109,070	2,720,988	2,595,797
Depreciation	413,039	394,461	374,615
Total operating expenses	6,548,810	5,435,763	5,715,798
Net operating loss	(873,255)	(184,617)	(744,355)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	469,679	475,593	473,061
Gifts – current use	160,102	168,209	181,212
Net investment income (loss)	229,663	439,154	542,819
Grants, interest expense and other non-operating	(14,961)	(7,614)	(38,131)
Net non-operating revenue	844,483	1,075,342	1,158,961
Income (loss) before other changes in net position	(28,772)	890,725	414,606
State capital appropriations	64,900	83,217	68,270
Private capital gifts	26,565	15,470	26,762
Additions to permanent endowments	45,533	55,579	52,458
Capital contributions and other changes in net position	3,236	6,129	7,719
Total other changes in net position	140,234	160,395	155,209
Increase in net position	111,462	1,051,120	569,815
Net position – beginning of year	5,322,614	5,496,365	4,941,790
Cumulative effect of accounting change	–	(1,224,871)	(15,240)
Net position – end of year	$ 5,434,076	$ 5,322,614	$ 5,496,365

Net tuition and fees increased $34 million, to $970 million in 2019, primarily due to a combination of enrollment and rate increases. New first-year student enrollment was up 10%, and instructional and non-resident tuition rates were up 1.4% and 4.8%, respectively. The overall increase in gross tuition, which totaled $54 million, was partially offset by a $20 million increase in scholarship allowances. 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 and room and board for four years. Total enrollment for the 2018-2019 academic year was up 0.9% over the prior academic year.

Operating **grant and contract revenues** increased $33 million, to $732 million in 2019. The increase relates primarily to a $30 million increase in federal research grants managed by the Office of Sponsored Programs.

Local grants and contracts decreased $13 million, primarily due to the $15 million in one-time funding received in 2018 from the City of Columbus for the Cannon Drive relocation project. Private grants and contracts were up $16 million, primarily due to increases in research grants from private sponsors.

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Total **auxiliary revenues** increased $11 million, to $340 million in 2019, primarily due to two concerts held in Ohio Stadium in summer 2018 and increases in Student Life housing and dining revenues. **Auxiliary expenses** increased $39 million, to $361 million, due primarily to expenses associated with the stadium concerts, Athletics salaries, cost of sales, travel, and Student Life housing and dining costs.

Educational and general expenses increased $667 million, or 33%, to $2.67 billion in 2019. Additional details are provided below.

The overall increase in educational and general expense is primarily due to pension and OPEB accruals. These accruals are allocated to functional expense lines in the Statement of Revenues, Expenses and Changes in Net Position, based on pension-eligible salaries. Excluding the $557 million swing in expenses related to pension and OPEB accruals, total educational and general expenses increased $111 million, or 4.6%, in 2019. **Instruction and departmental research** expenses increased $32 million, reflecting increases in salaries. **Separately budgeted research** expenses increased $19 million, reflecting growth in sponsored programs administered by the Office of Sponsored Programs. **Institutional support** expenses increased $58 million, primarily due to increased central expenses for employee benefits. Other educational and general expense categories were relatively stable in 2019.

Educational and General Expenses (in thousands)

	2019	2018	2017
Instruction and departmental research	$ 1,038,290	$ 1,006,057	$ 952,038
Separately budgeted research	492,816	473,463	462,514
Public service	176,384	177,325	162,807
Academic support	223,172	217,086	202,375
Student services	93,405	99,032	100,221
Institutional support	246,307	188,735	158,761
Operation and maintenance of plant	123,128	118,556	89,473
Scholarships and fellowships	127,769	130,363	129,267
Non-cash accruals for pensions and other postemployment benefits	144,084	(412,452)	174,745
Total educational and general expense	$ 2,665,355	$ 1,998,165	$ 2,432,201

Health System operating revenues grew $328 million, to $3.43 billion in 2019. Operating expenses (excluding depreciation, interest and transfers) increased $388 million, to $3.11 billion. An in-depth look at the Health System, as presented in its stand-alone financial statements, is provided below.

The Health System operates nearly 1,450 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 *U.S. News & World Report* for 27 consecutive years as one of "America's Best Hospitals." Eleven specialties have been in the top 10% nationally, and the medical center received the highest possible rating for eight common procedures and conditions. In 2019, Becker Hospital Review selected the medical center for its list of "100 Great Hospitals in America" in innovation, top-notch patient care and leadership in clinical advancement backed by forward-thinking research.

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 has more "Top Doctors" than any other central Ohio hospital. Our physicians were selected by Castle Connolly because they are among the very best in their specialties.

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In 2019, the Health System was leading the way with the medical center strategy of being "future-focused and driven to improve health in Ohio and across the world through innovation in research, education and patient care" and continued its financial excellence due to increased demand for our services combined with the persistent focus on improving efficiency. Inpatient admissions continued with a strong patient mix while inpatient beds increased 3.8% compared to the prior year.

Outpatient visits increased by 5.8% over 2018 primarily due to growth in ambulatory care volumes and growth in outpatient infusion services. Continued success in Ambulatory Services programs at The Jameson Crane Sports Medicine Institute and Upper Arlington outpatient facilities experienced 11.9% growth over the prior year.

The Health System experienced higher surgical volumes in 2018 with 4.0% growth over the prior year. Service lines contributing to growth in surgical volumes in 2019 were cancer, neurosurgery, orthopedic, thoracic, trauma/critical care/burn and vascular. The growth in surgical volumes contributed to a strong patient mix in admissions, revenues and outpatient volumes.

Solid organ transplants grew by 9.5% over the prior year. The Wexner Medical Center is leading the way in organ transplantation, celebrating 10,000 solid organ transplants since its first transplant, a kidney, 52 years ago. Less than 10% of adult transplant centers in the United States have achieved this milestone.

The Wexner Medical Center experienced a 9.3% growth in chemotherapy infusion sessions as James Cancer Hospital provided new and advanced treatments of cancer.

In 2019, total operating revenues grew $274.4 million, or 8.8% over the prior fiscal year. Growth in surgical cases, increased chemotherapy and pharmaceutical volumes and increased bed capacity contributed to the growth in operating revenue.

Approximately 92% of total operating revenues are from patient care activities. Other operating revenues include revenue from reference labs, cafeteria operations, rental agreements and other non-patient services. Due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients, the Health System operates a retail pharmacy dedicated to improving patient care by easing the challenges of managing medications. The retail pharmacy contributed $127.6 million of operating revenues in 2019 and $98.8 million in 2018. Other operating revenues also include 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 is to standardize the care and quality outcomes of all the neonatal patients in central Ohio. The NICU contributed $15.9 million of operating revenues in 2019 and $16.6 million in 2018.

Operating expenses increased $407.1 million or 14.5% from 2018 to 2019. Operating expenses correlate with the increases experienced with patient volumes and occupancy levels. The growth in salaries and benefits from 2018 to 2019 is reflective of increased salaries and a larger workforce due to the growth in patient volumes. Strong surgical and transplant volumes as well as increase in chemotherapy treatments contributed to the increase in supplies and drugs. The increase in volumes at the specialty retail pharmacy contributed to the increase in drug expense in 2019. Purchased services also grew in 2019 reflecting higher information technology and medical equipment general repairs costs, increased franchise fees and advertising expense.

Income Before Other Changes in Net Position was $186.6 million in 2019 compared to $270.9 million in 2018. Impacts to Income Before Other Changes in Net Position include pension expense of $225.8 million in 2019 compared to $117.3 million in 2018. This reflects the annual accounting for GASB 68. OPEB expense was $77.5 million in 2019 compared to $40.9 million in 2018,

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reflecting annual accounting for GASB 75. Income Before Other Changes in Net Position for clinical activities grew $61.3 million from 2018 to 2019, an increase of 14.3%. The increase in Income Before Other Changes in Net Position for clinical activities can be attributed to expanded bed capacity, growth in surgical volumes, strong pharmaceutical activity and expense control initiatives implemented throughout the Health System.

The Health System's other changes in net position for fiscal year 2019 include medical center investments of $150.0 million invested in research, education and programs at the medical center. Medical center investments totaled $150.4 million in 2018. Other changes in net position include capital contributions of $8.7 million in 2019 and $16.5 million in 2018 for hospital projects and capital acquisitions.

The Health System will continue to respond to the challenges and opportunities of the health care environment. The health care industry is witnessing a transformation toward a value-based system that will require the Health System to continue to provide high-quality care and superior outcomes. The Health System has aggressively implemented cutting-edge-health care delivery strategies and continues to enhance tertiary and quaternary care delivery across a broader geographic area.

The Health System is continuing its mission to provide world-class patient care and meet anticipated future growth, embarking on a plan to expand its primary and preventive care presence with the construction of new state-of-the-art outpatient centers. In 2019, the Health System committed to building two new facilities, including a 244,000-square-foot center in northeast Columbus that will include primary care, oncology, heart and vascular, orthopedic and neuroscience care along with four ambulatory surgery operating rooms and four endoscopy rooms. The second specialty center will be located in Dublin, Ohio. The Health System will continue creating an innovative health care delivery model to deliver high value care with an unparalleled patient experience and access.

Revenues and operating expenses of **OSU Physicians, Inc.** (OSUP), the university's central practice group for physician faculty members of the Colleges of Medicine and Public Health, continued to grow in 2019. Total consolidated operating revenues increased $34 million, to $560 million, reflecting increases in patient volumes. Total consolidated OSUP expenses (excluding depreciation and interest) increased $23 million to $507 million in 2019. 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 2019, decreasing $6 million, to $470 million. **State share of instruction** decreased $6 million, to $383 million due to a one-time appropriation in fiscal year 2018 of $5 million for the John Glenn College of Public Affair's State of Ohio Leadership Institute. **State line-item appropriations** were flat at $86 million.

State capital appropriations decreased $18 million, to $65 million in 2019, primarily due to a decline in capital expenditures for Pomerene Oxley Hall renovation and various repair and replacement projects, offset by increases in capital expenditures for the Koffolt/Fontana lab renovation and Postle Hall replacement.

Total **gifts** to the university decreased $7 million, to $232 million in 2019. Increases in capital gifts were offset by decreases in current use and endowment gifts. Several colleges and support units received gifts in excess of $1 million in 2019, including Veterinary Medicine, the James Cancer and Solove Research Institute, the College of Medicine, Neuroscience, the College of Arts and Sciences, the College of Engineering, the College of Food, Agricultural and Environmental Sciences, WOSU Public Media, Fisher College of Business, General University Scholarships and the Department of Athletics. Over 272,000 alumni and friends made gifts to the university, up from 270,000 in 2018.

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University investments yielded $230 million of **net investment income** in 2019, compared with $439 million in 2018, primarily due to lower investment returns in the university's long-term investment pool (LTIP). The LTIP returned 1.2% in 2019, down from 7.7% in 2018. The decrease in LTIP returns was primarily due to a combination of below-benchmark performance across asset classes and a $101 million reduction in the fair value of certain natural resources and oil and gas investments.

Prior-Year Highlights: ***In 2018,*** Ohio State's Health System operating revenues grew $251 million, to $3.10 billion. Health System operating expenses (excluding depreciation, interest and transfers) increased $125 million, to $2.72 billion. University investments yielded $439 million of net investment income, reflecting LTIP returns of +7.7%. Educational and general expenses decreased $434 million, to $2.00 billion, primarily due to pension and OPEB accruals. **In 2017,** Ohio State's 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.

Statement of Cash Flows

University Cash Flows Summary (in thousands)	2019	2018	2017
Net cash flows from (used in) operating activities	$ (7,757)	$ 1,053,673	$ (45,720)
Net cash flows from noncapital financing activities	779,439	764,223	787,986
Capital appropriations and gifts for capital projects	99,114	94,627	82,982
Proceeds from capital debt	–	73,885	6,430
Payments for purchase or construction of capital assets	(604,717)	(497,962)	(414,606)
Principal and interest payments on capital debt and leases, net of federal Build America Bond interest subsidies	(180,138)	(256,514)	(192,914)
Net cash flows provided (used) in investing activities	(1,128)	(505,508)	(238,980)
Net increase (decrease) in cash and cash equivalents	$ 84,813	$ 726,424	$ (14,822)

University cash and cash equivalents increased $85 million in 2019. Net cash flows from operating and non-capital financing activities decreased $1.05 billion, to $772 million, primarily due to the receipt of the $1.09 billion upfront payment from OSEP in 2018. Total cash used by capital financing activities was $686 million, reflecting capital expenditures and payments for debt service. Total cash used by investing activities was $1 million, reflecting net purchases of long-term investments.

Economic Factors That Will Affect the Future

To make the next bold leap in Ohio State's 150-year history, the university continues to invest in initiatives that advance its land-grant mission as a flagship public research university.

Guided by the strategic plan, the university's focus on operational excellence and resource stewardship has produced dedicated funding sources that support new affordability measures, teaching programs and other commitments to bolster academic excellence.

To that end, Ohio State expects to generate more than $200 million in efficiency savings from fiscal 2015 through fiscal 2020 for academic initiatives, and the university invested $800 million in proceeds from the Comprehensive Energy Management partnership into endowments that provide ongoing support for strategic academic priorities.

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At the Wexner Medical Center, revenues continue to outpace budget and surgeries in high-demand areas continue to grow. The university plans to reinvest these funds in patient care and in capital planning to support growing demand, including through a new inpatient hospital, expanded ambulatory facilities and an integrated health sciences facility.

Three programs in fiscal year 2020 highlight the university's academic priorities:

- **Access and Affordability.** Ohio State is controlling costs and providing unprecedented aid for students demonstrating financial need. In total, the university has increased financial assistance committing more than $150 million and supporting more than 5,000 low- to moderate-income Ohio students. These unprecedented affordability efforts are funded with efficiency initiatives and proceeds from innovative funding.

- **Teaching and Learning.** Ohio State's comprehensive digital learning initiative, Digital Flagship, is providing more than 24,000 first- and second-year students with an iPad and related tools for the 2019–2020 academic year. The program 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.

- **Operational Excellence and Resource Stewardship.** In a continued effort to control costs and provide unprecedented aid to students, the university prioritized strategic procurement to reduce costs. Since fiscal 2013, the university has produced $324 million in cumulative savings while negotiating 960 university contracts.

Ohio State is also continuing cost transparency for families with the third year of the Ohio State Tuition Guarantee, which offers incoming in-state undergraduate students certainty about the cost of their college education by freezing tuition rates, mandatory fees and room and board for the duration of their four years at Ohio State.

Now in the third year of a 50-year comprehensive partnership, Ohio State continues to see tangible improvement in its energy management and sustainability. To date, 107,000 indoor and 1,700 outdoor light fixtures have been converted to energy-efficient technology and energy systems are being upgraded in 14 buildings. Future improvements, including a Combined Heat and Power plant, promise to reduce the campus carbon footprint by 35%.

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, that 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.

STATEMENTS OF NET POSITION June 30, 2019 and June 30, 2018 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2019	2018	2019	2018	2019	2018
ASSETS AND DEFERRED OUTFLOWS:						
Current Assets:						
Cash and cash equivalents	$ 1,570,164	$ 1,412,728	$ 138,936	$ 136,098	$ 1,709,100	$ 1,548,826
Temporary investments	1,738,010	1,610,826	16,510	4,845	1,754,520	1,615,671
Accounts receivable, net	635,324	619,310	63,003	53,277	698,327	672,587
Notes receivable – current portion, net	25,231	25,231	87	86	25,318	25,317
Pledges receivable – current portion, net	31,540	29,524	–	–	31,540	29,524
Accrued interest receivable	25,050	23,454	–	–	25,050	23,454
Inventories and prepaid expenses	133,524	125,289	4,597	4,592	138,121	129,881
Investments held under securities lending program	44,391	39,510	–	–	44,391	39,510
Amounts due from (to) primary institution	(22,346)	(16,986)	22,346	16,986	–	–
Total Current Assets	4,180,888	3,868,886	245,479	215,884	4,426,367	4,084,770
Noncurrent Assets:						
Restricted cash	492,033	564,656	–	–	492,033	564,656
Notes receivable, net	60,750	41,118	2,461	2,548	63,211	43,666
Pledges receivable, net	64,151	70,901	–	–	64,151	70,901
Net other post-employment benefit asset	74,520	–	–	–	74,520	–
Long-term investment pool	5,256,759	5,211,434	–	–	5,256,759	5,211,434
Other long-term investments	219,455	163,946	–	1,481	219,455	165,427
Capital assets, net	5,268,363	5,043,222	164,152	134,559	5,410,355	5,154,803
Total Noncurrent Assets	11,436,031	11,095,277	166,613	138,588	11,580,484	11,210,887
Total Assets	15,616, 919	14,964,163	412,092	354,472	16,006,851	15,295,657
Deferred Outflows:						
Pension	1,017,370	631,606	18	45	1,017,388	631,651
Other post-employment benefits	116,167	87,904	6	11	116,173	87,915
Other deferred outflows	22,198	20,109	–	–	22,198	20,109
Total Deferred Outflows	1,155,735	739,619	24	56	1,155,759	739,675
Total Assets and Deferred Outflows	$ 16,772,654	$ 15,703,782	$ 412,116	$ 354,528	$ 17,162,610	$ 16,035,332
LIABILITIES, DEFERRED INFLOWS AND NET POSITION:						
Current Liabilities:						
Accounts payable and accrued expenses	$ 591,844	$ 579,363	$ 20,047	$ 24,049	$ 611,891	$ 603,411
Deposits and advance payments for goods and services	281,886	274,401	2,111	2,094	283,997	276,495
Current portion of bonds, notes and leases payable	43,627	52,229	1,343	1,322	44,970	53,551
Long-term bonds payable, subject to remarketing	574,675	588,360	–	–	574,675	588,360
Liability under securities lending program	44,391	39,510	–	–	44,391	39,510
Other current liabilities	89,752	88,850	5,797	–	95,549	88,850
Amounts due to (from) primary institution — current	(21,884)	(23,339)	21,884	23,339	–	–
Total Current Liabilities	1,604,291	1,599,374	51,182	50,804	1,655,473	1,650,177

STATEMENTS OF NET POSITION June 30, 2019 and June 30, 2018 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2019	2018	2019	2018	2019	2018
Noncurrent Liabilities:						
Bonds, notes and leases payable	$ 2,543,360	$ 2,582,017	$ 18,161	$ 21,042	$ 2,561,521	$ 2,603,059
Concessionaire payable	39,121	10,316	–	–	39,121	10,316
Net pension liability	3,715,058	2,548,009	136	236	3,715,194	2,548,245
Net other post-employment benefit liability	1,339,383	1,249,521	60	153	1,339,443	1,249,674
Compensated absences	177,672	170,225	–	–	177,672	170,225
Self-insurance accruals	82,507	74,139	–	–	82,507	74,139
Amounts due to third-party payors – Health System	49,374	44,909	–	–	49,374	44,909
Irrevocable split-interest agreements	28,463	29,378	–	–	28,463	29,378
Refundable advances for Federal Perkins loans	33,478	32,638	–	–	33,478	32,638
Advance from concessionaire	1,024,555	1,046,342	–	–	1,024,555	1,046,342
Other noncurrent liabilities	122,292	109,281	24,603	23,019	124,735	109,324
Amounts due to (from) primary institution – noncurrent	(98,022)	(87,205)	98,022	87,205	–	–
Total Noncurrent Liabilities	9,057,241	7,809,570	140,982	131,655	9,176,063	7,918,249
Total Liabilities	10,661,532	9,408,944	192,164	182,459	10,831,536	9,568,426
Deferred Inflows:						
Parking service concession arrangement	416,545	426,176	–	–	416,545	426,176
Pension	109,993	411,768	10	41	110,003	411,809
Other post-employment benefits	117,979	100,500	3	11	117,982	100,511
Other deferred inflows	32,529	33,780	–	–	32,529	33,779
Total Deferred Inflows	677,046	972,224	13	52	677,059	972,275
Net Position:						
Net investment in capital assets	2,605,381	2,376,795	143,730	111,779	2,749,111	2,488,574
Restricted:			–	–		–
Nonexpendable	1,580,115	1,551,278	–		1,580,115	1,551,278
Expendable	1,303,269	1,328,793	–		1,303,269	1,328,793
Unrestricted	(54,689)	65,748	76,209	60,238	21,520	125,986
Total Net Position	5,434,076	5,322,614	219,939	172,017	5,654,015	5,494,631
Total Liabilities, Deferred Inflows and Net Position	$ 16,772,654	$ 15,703,782	$ 412,116	$ 354,528	$ 17,162,610	$ 16,035,332
Operating Revenues:						
Student tuition and fees (net of scholarship allowances of $218,936 and $199,405, respectively)	$ 969,633	$ 935,893	$ –	$ –	$ 969,633	$ 935,893
Federal grants and contracts	354,214	328,410	13,534	13,612	367,748	342,022
State grants and contracts	83,651	78,676	–	–	83,651	78,676
Local grants and contracts	25,608	38,929	–	–	25,608	38,929
Private grants and contracts	268,780	252,832	36,447	44,577	305,227	297,409
Sales and services of educational departments	156,921	152,495	9,440	9,469	166,361	161,964
Sales and services of auxiliary enterprises (net of scholarship allowances of $37.284 and $34,274, respectively)	339,615	328,692	–	–	339,615	328,692
Sales and services of the OSU Health System,net	3,432,271	3,103,891	–	–	3,432,271	3,103,891
Sales and services of OSU Physicians, Inc., net	–	–	560,322	525,796	560,322	525,796
Other operating revenues	44,862	31,328	–	–	44,862	31,328
Total Operating Revenues	5,675,555	5,251,146	619,743	593,454	6,295,298	5,844,600

STATEMENTS OF NET POSITION June 30, 2019 and June 30, 2018 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2019	2018	2019	2018	2019	2018
Operating Expenses:						
Educational and General						
Instruction and departmental research	$ 1,070,292	$ 811,123	$ 9,403	$ 8,934	$ 1,079,695	$ 820,057
Separately budgeted research	487,327	300,952	15,798	19,331	503,125	320,283
Public service	183,228	137,120	9,153	9,891	192,381	147,011
Academic support	242,960	182,452	–	–	242,960	182,452
Student services	109,166	105,760	–	–	109,166	105,760
Institutional support	309,691	210,691	20,636	22,789	330,327	233,480
Operation and maintenance of plant	135,307	123,783	699	3,101	136,006	126,884
Scholarships and fellowships	127,384	126,284	–	–	127,384	126,284
Auxiliary enterprises	361,346	322,149	–	–	361,346	322,149
OSU Health System	3,109,070	2,720,988	–	–	3,109,070	2,720,988
OSU Physicians, Inc.	–	–	507,366	484,132	507,366	484,132
Depreciation	413,039	394,461	7,467	7,674	420,506	402,135
Total Operating Expenses	6,548,810	5,435,763	570,522	555,852	7,119,332	5,991,615
Net Operating Income (Loss)	(873,255)	(184,617)	49,221	37,602	(824,034)	(147,015)
Non-operating Revenues (Expenses):						
State share of instruction and line-item appropriations	469,679	475,593	–	–	469,679	475,593
Federal subsidies for Build America Bonds interest	10,619	10,574	–	–	10,619	10,574
Federal non-exchange grants	63,042	59,272	–	–	63,042	59,272
State non-exchange grants	11,119	11,422	–	–	11,119	11,422
Gifts	160,102	168,209	–	–	160,102	168,209
Net investment income	229,663	439,154	2,624	1,239	232,287	440,393
Interest expense on plant debt	(115,084)	(116,489)	(960)	(891)	(116,044)	(117,380)
Other non-operating revenues (expenses)	15,343	27,607	(22,890)	(20,522)	(7,547)	7,085
Net Non-operating Revenue	844,483	1,075,342	(21,226)	(20,174)	823,257	1,055,168
Income (Loss) before Changes in Net Position	(28,772)	890,725	27,995	17,428	(777)	908,153
Changes in Net Position:						
State capital appropriations	64,900	83,217	–	–	64,900	83,217
Private capital gifts	26,565	15,470	–	–	26,565	15,470
Additions to permanent endowments	45,533	55,579	–	–	45,533	55,579
Capital contributions and changes in net position	3,236	6,129	19,927	–	23,163	6,129
Total Changes in Net Position	140,234	160,395	19,927	–	160,161	160,395
Increase in Net Position	111,462	1,051,120	47,922	17,428	159,384	1,068,548
Net Position – Beginning of Year:						
Beginning of year, as previously reported	5,322,614	5,511,827	172,017	154,731	5,494,631	5,666,558
Cumulative effect of accounting changes	–	(1,240,333)	–	(142)	–	(1,240,475)
Beginning of Year, as restated	5,322,614	4,271,494	172,017	154,589	5,494,631	4,426,083
Net Position – End of Year	$ 5,434,076	$ 5,322,614	$ 219,939	$ 172,017	$ 5,654,015	$ 5,494,631

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

STATEMENTS OF NET POSITION June 30, 2019 and June 30, 2018 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2019	2018	2019	2018	2019	2018
Cash Flows from Operating Activities:						
Tuition and fee receipts	$ 848,524	$ 824,050	–	–	$ 848,524	$ 824,050
Grant and contract receipts	732,383	707,591	51,383	59,288	783,766	766,879
Receipts for sales and services	3,894,191	3,551,804	558,634	524,443	4,452,825	4,076,247
Receipt from energy concessionaire	–	1,089,914	–	–	–	1,089,914
Payments to or on behalf of employees	(2,533,272)	(2,379,815)	(374,538)	(353,956)	(2,907,810)	(2,733,771)
University employee benefit payments	(663,084)	(600,854)	(85,463)	(84,429)	(748,547)	(685,283)
Payments to vendors for supplies and services	(2,196,722)	(2,056,435)	(104,119)	(105,265)	(2,300,841)	(2,161,700)
Payments to students and fellows	(118,803)	(121,853)	–	–	(118,803)	(121,853)
Student loans issued	(4,001)	(9,979)	–	–	(4,001)	(9,979)
Student loans collected	8,848	8,804	–	–	8,848	8,804
Student loan interest and fees collected	2,184	1,848	–	–	2,184	1,848
Other receipts	21,995	38,598	–	–	21,995	38,598
Net cash provided (used) by operating activities	(7,757)	1,053,673	45,897	40,081	38,140	1,093,754
Cash Flows from Noncapital Financing Activities	469,679	475,593	–	–	469,679	475,593
State share of instruction and line-item appropriations						
Non-exchange grant receipts	74,161	70,694	–	–	74,161	70,694
Gift receipts for current use	173,649	172,973	–	–	173,649	172,973
Additions to permanent endowments	45,533	55,579	–	–	45,533	55,579
Drawdowns of federal direct loan proceeds	353,493	328,892	–	–	353,493	328,892
Disbursements of federal direct loans to students	(339,227)	(343,209)	–	–	(339,227)	(343,209)
Repayment of loans from related organization	691	880	–	–	691	880
Amounts received from irrevocable split-interest agreements	734	153	–	–	734	153
Amounts paid to annuitants and life beneficiaries	(1,735)	(1,733)	–	–	(1,735)	(1,733)
Agency funds receipts	5,566	5,386	–	–	5,566	5,386
Agency funds disbursements	(5,387)	(4,894)	–	–	(5,387)	(4,894)
Other receipts (payments)	2,282	3,909	(6,578)	(14,388)	(4,296)	(10,479)
Net cash provided (used) by noncapital financing activities	779,439	764,223	(6,578)	(14,388)	772,861	749,835
Cash Flows from Capital Financing Activities:	–	73,885	7,806	6,854	7,806	80,739
Proceeds from capital debt						
State capital appropriations	64,788	80,238	–	–	64,788	80,238
Gift receipts for capital projects	34,326	14,389	–	–	34,326	14,389
Payments for purchase or construction of capital assets	(604,717)	(497,962)	(34,848)	(26,160)	(639,565)	(524,122)
Principal payments on capital debt and leases	(67,092)	(145,060)	(894)	(796)	(67,986)	(145,856)
Interest payments on capital debt and leases	(123,666)	(122,376)	(968)	(897)	(124,634)	(123,273)
Federal subsidies for Build America Bonds interest	10,620	10,922	–	–	10,620	10,922
Net cash (used) by capital financing activities	(685,741)	(585,964)	(28,904)	(20,999)	(714,645)	(606,963)

STATEMENTS OF NET POSITION June 30, 2019 and June 30, 2018 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2019	2018	2019	2018	2019	2018
Cash Flows from Investing Activities:						
Net (purchases) sales of temporary investments	$ (102,981)	$ 26,067	$ (13,343)	$ 4,371	$ (116,324)	$ 30,438
Proceeds from sales and maturities of long-term investments	3,556,262	2,361,342	3,220	69	3,559,482	2,361,411
Investment income, net of related expenses	142,775	96,521	2,546	1,239	145,321	97,760
Purchases of long-term investments	(3,597,184)	(2,989,438)	–	–	(3,597,184)	(2,989,438)
Net cash provided (used) by investing activities	(1,128)	(505,508)	(7,577)	5,679	(8,705)	(499,829)
Net Increase in Cash	84,813	726,424	2,838	10,373	87,651	736,797
Cash and Cash Equivalents – Beginning of Year	1,977,384	1,250,960	136,098	125,725	2,113,482	1,376,685
Cash and Cash Equivalents – End of Year	$ 2,062,197	$ 1,977,384	$ 138,936	$ 136,098	$ 2,201,133	$ 2,113,482
Reconciliation of Net Operating Income (Loss) to Net Cash Used by Operating Activities:						
Operating income (loss)	$ (873,255)	$ (184,617)	$ 49,221	$ 37,602	$ (824,034)	$ (147,015)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	413,039	394,461	7,467	7,674	420,506	402,135
Changes in assets and liabilities:						
Accounts receivable, net	(30,166)	(26,424)	(6,188)	(5,541)	(36,354)	(31,965)
Notes receivable, net	(19,447)	(4,055)	86	114	(19,361)	(3,941)
Accrued interest receivable	131	(39)	–	–	131	(39)
Inventories and prepaid expenses	(8,235)	(26,066)	(5)	(964)	(8,240)	(27,030)
Amounts due to/from primary institution	(3,924)	(2,928)	(5,943)	(3,581)	(9,867)	(6,509)
Net other post-employment benefit asset	(74,520)	–	–	–	(74,520)	–
Deferred outflows	(413,871)	272,207	31	99	(413,840)	272,306
Accounts payable and accrued liabilities	36,319	47,859	(6,214)	4,939	30,105	52,798
Self-insurance accruals	8,368	(7,100)	–	–	8,368	(7,100)
Amounts due to third-party payors – Health System	4,465	6,877	–	–	4,465	6,877
Deposits and advanced payments	5,609	49,077	17	375	5,626	49,452
Compensated absences	7,447	5,631	–	–	7,447	5,631
Refundable advances for Federal Perkins loans	840	924	–	–	840	924
Advance from concessionaire	(21,787)	1,046,342	–	–	(21,787)	1,046,342
Net pension liability	1,167,049	(1,017,353)	(100)	(146)	1,166,949	(1,017,499)
Net other post-employment benefit liability	89,862	24,651	(93)	11	89,769	24,662
Deferred inflows	(293,927)	486,295	(38)	42	(293,965)	486,337
Other liabilities	(1,754)	(12,069)	7,656	(543)	5,902	(12,612)
Net cash provided (used) by operating activities	$ (7,757)	$ 1,053,673	$ 45,897	$ 40,081	$ 38,140	$ 1,093,754
Non Cash Transactions:						
Construction in process in accounts payable	$ 32,180	$ 43,852	$ 3,925	$ 1,494	$ 36,105	$ 45,346
Construction in process in concessionaire payable	31,878	10,316	–	–	31,878	10,316
Capital lease	10,958	10,508	–	–	10,958	10,508
Stock gifts	14,104	18,238	–	–	14,104	18,238
Net increase (decrease) in fair value of investments	84,113	341,400	(203)	77	83,910	341,477
Forgiveness of debt	–	–	2,000	–	2,000	–

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

- **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.

- **Pelotonia** – The fiscal dependency criteria apply to this not-for-profit fundraising organization, which operates exclusively for the benefit of The Ohio State University.

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 changes in net position was $0 for the years ended June 30, 2019 and 2018.

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 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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019, the university has made commitments to limited partnerships totaling $1,319,760 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 6,603 Board authorized funds and 284 pending funds. Each named fund is assigned

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019, the fair value of the university and Foundation gifted endowments is $2,039,437, which is $315,252 above the historical dollar value of $1,724,185. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2019, there are 1,704 named funds that remain underwater. The fair value of these underwater funds at June 30, 2019 is $563,140, which is $51,189 below the historical dollar value of $614,329.

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.

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:

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 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 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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019 and 2018 are $50,336 and $50,909, respectively, after applying an decrease of $3,443 and a increase of $6,776, 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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

years ended June 30, 2019 and 2018 are $7,856 and $7,169, 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) assets and 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 assets and 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. Additional information regarding net OPEB assets and liabilities, related deferrals and OPEB expense is provided in Note 15.

Implementation of GASB Statement No. 83

In fiscal year 2019, the university implemented GASB 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 (AROs). ARO liabilities and related deferred outflows are recognized 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.

The cumulative effect of adopting GASB Statement No. 83 was a $15,462 reduction in the university's net position as of July 1, 2017. The effects of adopting Statement No. 83 in the university's financial statements for the year ended June 30, 2018 were as follows:

Statement of Net Position – Primary Institution	As Previously Reported	Effect of Adoption of Statement No. 83	As Restated
Other deferred outflows	$ 18,393	$ 1,716	$ 20,109
Total deferred outflows	737,903	1,716	739,619
Other noncurrent liabilities	91,944	17,337	109,281
Total noncurrent liabilities	7,792,233	17,337	7,809,570
Total liabilities	9,391,607	17,337	9,408,944
Unrestricted net position	81,369	(15,621)	65,748
Total net position	5,338,235	(15,621)	5,322,614

Statement of Revenues, Expenses and Changes in Net Position – Primary Institution	As Previously Reported	Effect of Adoption of Statement No. 83	As Restated
Operation and maintenance of plant	$ 123,625	$ 158	$ 123,783
Total operating expenses	5,435,605	158	5,435,763
Net operating income (loss)	(184,459)	(158)	(184,617)
Income (loss) before changes in net position	890,883	(158)	890,725
Increase in net position	1,051,278	(158)	1,051,120

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Implementation of GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt,* including Direct Borrowings and Direct Placements, was implemented by the University as of July 1, 2018. This Statement defines debt for purposes of disclosures in notes to financial statements 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 additional disclosures related to debt including providing additional information for direct borrowings and direct placements of debt separately from other debt. Implementation of Statement No. 88 had no impact on the financial statements.

Newly Issued Accounting Pronouncements

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 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.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* This standard establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The standard is effective for periods beginning after December 15, 2018 (FY2020).

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations.* This standard clarifies the definition of a conduit debt obligation, establishes the third-party obligor's responsibility for the liability and modifies disclosure requirements for these arrangements. The standard is effective for periods beginning after December 15, 2020 (FY2022).

University management is currently assessing the impact that implementation of GASB Statements No. 84, 87, 89, 90 and 91 will have on the university's financial statements.

Other

The university is exempt from income taxes under Internal Revenue service rules. Any unrelated business income is taxable.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2019, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $2,062,197 as compared to bank balances of $2,073,030. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $180,099 is covered by federal deposit insurance and $1,892,931 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 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, 2019, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $138,936 as compared to bank balances of $142,401. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,548 is covered by federal deposit insurance and $137,853 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.

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%

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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.

Total university investments by major category for the primary institution at June 30, 2019 and 2018 are as follows:

	Primary Institution	
	2019	2018
Temporary Investments	$ 1,738,010	$ 1,610,826
Long–Term Investment Pool:		
Gifted Endowment – University	1,070,008	1,104,236
Gifted Endowment – OSU Foundation	969,429	958,750
Quasi Endowment – Operating	1,289,534	1,208,769
Quasi Endowment – Designated	1,927,788	1,939,679
Total Long–Term Investment Pool	5,256,759	5,211,434
Securities Lending Collateral Investments	44,391	39,510
Other Long–Term Investments	219,455	163,946
Total Investments	$ 7,258,615	$ 7,025,716

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Total university investments by investment type for the primary institution at June 30, 2019 are as follows:

	Primary Institution				
	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ 309	$ 533,091	$ –	$ –	$ 533,400
International equity	–	391,301	–	–	391,301
Equity mutual funds	86,616	1,024,535	22,284	–	1,133,435
U.S. government obligations	157,044	554,889	471	–	712,404
U.S. government agency obligations	129,502	–	–	–	129,502
Corporate bonds and notes	1,223,091	–	–	–	1,223,091
Bond mutual funds	92,439	–	16,103	–	108,542
Foreign government bonds	12,380	–	–	–	12,380
Real assets	9,578	525,966	24,884	–	560,428
Hedge funds	–	829,151	–	–	829,151
Private equity	–	903,311	138,625	–	1,041,936
Commercial paper	18,068	–	–	–	18,068
Cash and cash equivalents	–	494,515	–	–	494,515
Other	8,983	–	17,088	–	26,071
Securities Lending Collateral Assets:					
Repurchase agreements	–	–	–	18,703	18,703
Variable rate notes	–	–	–	950	950
Certificates of deposit	–	–	–	24,772	24,772
Cash and other adjustments	–	–	–	(34)	(34)
	$ 1,738,010	$ 5,256,759	$ 219,455	$ 44,391	$ 7,258,615

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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
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
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

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

	2019	2018
Interest and dividends	$ 197,877	$ 162,059
Net increase in fair value of investments	84,112	341,400
Investment expenses	(52,326)	(64,305)
Total	$ 229,663	$ 439,154

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 or meet the intent to sell criteria 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.

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 $37,109 and $19,733 at June 30, 2019 and 2018, respectively.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2019 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	$ 533,400	$ –	$ –	$ –	$ 533,400
International equity	391,301	–	–	–	391,301
Equity mutual funds	188,590	–	–	944,845	1,133,435
U.S. government obligations	8,311	704,093	–	–	712,404
U.S. government agency obligations	–	129,502	–	–	129,502
Corporate bonds and notes	–	1,220,966	2,125	–	1,223,091
Bond mutual funds	108,542	–	–	–	108,542
Foreign government bonds	–	12,380	–	–	12,380
Real assets	19,719	–	313,986	226,723	560,428
Hedge funds	–	–	–	829,151	829,151
Private equity	–	–	187,790	854,146	1,041,936
Commercial paper	–	18,068	–	–	18,068
Cash equivalents	457,406	–	–	–	457,406
Other	–	8,551	17,520	–	26,071
Securities Lending Collateral Assets:					
Repurchase agreements	–	18,703	–	–	18,703
Variable rate notes	–	950	–	–	950
Commercial paper	–	–	–	–	–
Certificates of deposit	–	24,772	–	–	24,772
Other adjustments	–	(34)	–	–	(34)
	$ 1,707,269	$ 2,137,951	$ 521,421	$ 2,854,865	$ 7,221,506

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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

	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

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, 2019 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Equity mutual funds — non-public international	$ 944,845	$ –	No limit	1 to 30 days	None
Hedge funds — absolute return, credit, long/short equities	829,151	–	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	854,146	785,128	1-12 years	Partnerships ineligible for redemption	Not redeemable
Real assets — natural resources, real estate, intrastructure	226,723	165,257	1-12 years	Partnerships ineligible for redemption	Not redeemable
	$ 2,854,865	$ 950,385			

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

At June 30, 2019, university management identified several partnership investments measured at NAV whose sale is probable for an amount different from NAV. The fair value of these investments – based on bids provided by third parties – is $243,182. The university is continuing to consider the sale of these investments.

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.

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, 2019 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	$ 712,404	$ 583,306	$ 111,097	$ 18,001	$ –
U.S. government agency obligations	129,502	21,127	12,463	17,203	78,709
Commercial paper	18,068	18,068	–	–	–
Corporate bonds	1,223,091	242,552	828,631	65,590	86,318
Bond mutual funds	108,542	(135)	60,981	32,353	15,343
Other governmental bonds	8,550	1,857	4,226	1,163	1,304
Foreign governmental bonds	12,380	6,014	6,366	–	–
Securities Lending Collateral:					
Repurchase agreements	18,703	18,703	–	–	–
Certificates of deposit	950	950	–	–	–
Commercial paper	–	–	–	–	–
Variable rate notes	24,772	24,772	–	–	–
Total	$ 2,256,962	$ 917,214	$ 1,023,764	$ 134,310	$ 181,674

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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

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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2019 are as follows:

	Primary Institution										
	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not Rated
U.S. government and agency obligations	$ 841,906	$ 4,746	$ 778,923	$ 55,899	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,338
Corporate bonds	1,223,091	76,957	191,993	440,442	358,615	21,993	652	–	–	–	132,439
Bond mutual funds	108,542	20,337	60,937	11,802	12,155	1,915	653	721	–	–	22
Foreign government bonds	12,380	2,715	201	6,359	–	–	–	–	–	–	3,105
Commercial paper	18,068	–	–	4,985	–	–	–	–	–	–	13,083
Other government bonds	8,550	–	5,110	3,440	–	–	–	–	–	–	–
Securities Lending Collateral:											
Repurchase agreements	18,703	–	–	–	–	–	–	–	–	–	18,703
Certificates of deposit	950	–	–	950	–	–	–	–	–	–	–
Commercial paper	–	–	–	–	–	–	–	–	–	–	–
Variable rate notes	24,772	–	7,855	16,917	–	–	–	–	–	–	–
Total	$ 2,256,962	$ 104,755	$1,045,019	$ 540,794	$ 370,770	$ 23,908	$ 1,305	$ 721	$ –	$ –	$ 169,690

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

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, 2019 and June 30, 2018.

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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

At June 30, 2019, 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	$ –	$ –	$ 34	$ –	$ –	$ –
Australian dollar	5,969	31,351	98	–	–	–
Bangladeshi taka	–	–	–	–	–	–
Brazilian real	9,032	7,322	144	–	–	–
Canadian dollar	17,890	10,414	62	627	–	–
Chilean peso	435	196	54	–	–	–
Chinese yuan	663	57,495	5	–	–	–
Columbian peso	181	62	90	–	–	–
Czech Republic koruna	67	670	–	–	–	–
Danish krone	1,236	5,027	3	–	–	–
Egyptian pound	80	274	–	–	–	–
Euro	111,377	83,394	(854)	798	990	89,635
Great Britain pound sterling	40,376	74,112	91	3,545	–	104,324
Hong Kong dollar	24,286	39,176	(320)	–	–	–
Hungarian forint	122	63	–	–	–	–
Iceland Krona	–	–	36	–	–	–
Indian rupee	4,237	2,247	(4)	–	–	–
Indonesian rupiah	952	3,127	186	–	–	–
Israeli shekel	198	134	7	–	–	–
Japanese yen	104,304	51,414	393	–	5,513	–
Kenyan Shilling	–	377	–	–	–	–
Kuwaiti dinar	–	148	–	–	–	–
Malaysian ringgit	987	1,919	(2)	–	–	–
Mexican peso	1,136	2,117	155	–	–	–
New Taiwan dollar	5,141	9,020	(2)	–	–	–
New Turkish lira	253	761	–	–	–	–
New Zealand dollar	288	106	46	–	–	–
Norwegian krone	4,760	3,294	67	–	–	–
Pakistan rupee	33	23	–	–	–	–
Peruvian nuevo sol	–	7	146	–	–	–
Philippine peso	490	722	–	–	–	–
Polish zloty	602	135	122	–	–	–
Qatarian rial	441	241	–	–	–	–
Romanian new leu	–	–	–	–	–	–
Russian ruble	1,435	625	254	–	–	–
Saudi Riyal	616	287	–	–	–	–
Singapore dollar	1,143	7,940	–	–	–	–
South African rand	2,622	6,396	86	–	–	–
South Korean Won	9,700	9,769	(129)	–	–	–
Sri Lanka rupee	–	–	–	–	–	–
Swedish krona	3,916	14,000	126	–	–	–
Swiss franc	34,631	17,664	(114)	–	–	29,825
Thailand bhat	1,416	1,186	(1)	–	–	–
UAE dirham	286	154	–	–	–	–
Total	$ 391,301	$ 443,369	$ 779	$ 4,970	$ 6,503	$ 223,784

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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
Argrntine 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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019 and 2018 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, 2019, 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, 2019, securities loaned by the university amounted to a fair value of $69,375 and were secured by collateral in the amount of $80,012. The portion of this collateral that was received in cash amounted to $44,387 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

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.

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable for the primary institution at June 30, 2019 and 2018 consist of the following:

	Primary Institution	
	2019	2018
Gross receivables – OSU Health System	$ 1,171,862	$ 1,165,740
Grant and contract receivables	94,218	92,973
Tuition and fees receivable	21,970	19,519
Receivables for departmental and auxiliary sales and services	51,667	44,280
State and federal receivables	12,382	26,535
Other receivables	28	32
Total receivables	1,352,127	1,349,079
Less: Allowances	716,803	729,769
Total receivables, net	$635,324	$619,310

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 $18,149 and $18,709 at June 30, 2019 and 2018, 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 $101,478 in non-endowment pledges receivable and a related allowance for doubtful accounts of $5,787 at June 30, 2019. The university recorded $104,041 in non-endowment pledges receivable and a related allowance for doubtful accounts of $3,616 at June 30, 2018.

Accounts receivable for the discretely presented component units at June 30, 2019 and 2018 consist of the following:

	Discretely Presented Component Units	
	2019	2018
Gross receivables – OSU Physicians	$ 129,817	$ 115,796
Other receivables	13,304	9,358
Total receivables	143,121	125,154
Less: Allowances for doubtful accounts	80,118	71,877
Total receivables, net	$ 63,003	$ 53,277

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

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the primary institution for the year ended June 30, 2019 is summarized as follows:

	Primary Institution			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 89,492	$ 3,317	$ –	92,809
Intangibles	18,413	–	–	18,413
Construction in progress	378,859	16,925	–	395,784
Total non depreciable assets	486,764	20,242	–	507,006
Capital assets being depreciated:				
Improvements other than buildings	833,855	88,659	15	922,499
Buildings and fixed equipment	6,375,994	363,809	4,196	6,735,607
Movable equipment, furniture and software	1,547,854	165,277	64,473	1,648,658
Library books	191,275	3,890	834	194,331
Total	8,948,978	621,635	69,518	9,501,095
Less: Accumulated depreciation	4,392,520	413,039	65,821	4,739,738
Total depreciable assets, net	4,556,458	208,596	3,697	4,761,357
Capital assets, net	$ 5,043,222	$ 228,838	$ 3,697	$ 5,268,363

The increase in construction in progress of $16,925 in fiscal year 2019 represents the amount of capital expenditures for new projects of $573,711, net of assets placed in service of $556,786.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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.

Capital assets activity for the discretely presented component units for the year ended June 30, 2019 is summarized as follows:

	Discretely Presented Component Units			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 25,731	$ 3,741	$ 34	$ 29,438
Intangibles	46	16	–	62
Construction in progress	19,758	21,704	–	41,462
Total non depreciable assets	45,535	25,461	34	70,962
Capital assets being depreciated:				
Improvements other than buildings	14,360	3,705	634	17,431
Buildings and fixed equipment	111,918	4,993	17,516	99,395
Movable equipment, furniture and software	33,434	9,839	252	43,021
Total	159,712	18,537	18,402	159,847
Less: Accumulated depreciation	70,688	7,467	11,498	66,657
Total depreciable assets, net	89,024	11,070	6,904	93,190
Capital assets, net	$ 134,559	$ 36,531	$ 6,938	$ 164,152

The increase in construction in progress of $21,704 in fiscal year 2019 represents the amount of capital expenditures for new projects of $27,858, net of assets placed in service of $6,154.

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	$ 134,59

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.

The university recognized asset retirement obligations (AROs) of $17,337 at June 30, 2019 and 2018, respectively. Assets with AROs include university facilities in which radioactive materials are used, facilities handling hazardous chemicals or waste and fuel storage tanks, all of which are subject to regulation by the State of Ohio. Liability estimates are based on decommissioning funding plans (for facilities handling radioactive materials) and historical experience (for hazardous waste facilities and fuel storage tanks). The estimated remaining useful lives of these assets range from 0 to 26 years.

NOTE 6 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses for the primary institution at June 30, 2019 and 2018 consist of the following:

	Primary Institution	
	2019	2018
Payables to vendors for supplies and services	$ 326,794	$ 330,538
Accrued compensation and benefits	141,433	131,639
Retirement system contributions payable	84,622	80,066
Other accrued expenses	38,995	37,120
Total payables and accrued expenses	$ 591,844	$ 579,363

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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, 2019 and 2018 consist of the following:

	Primary Institution	
	2019	2018
Current deposits and advance payments:		
Tuition and fees	$ 45,827	$ 42,585
Departmental and auxiliary sales and services	82,509	81,541
Affinity agreements	3,087	2,915
Advance from concessionaire	21,786	21,786
Grant and contract advances	113,290	111,091
Other deposits and advance payments	15,387	14,483
Total current deposits and advance payments	$ 281,886	$ 274,401
Advance from concessionaire	$ 1,024,555	$ 1,046,342
Other non-current deposits and advance payments:	101,089	68,018

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 – 6/30/19	$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, 2019, 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, 2019. 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, 2019 of the anticipated future payments on gross claims is estimated at its present value of $51,092 discounted at an estimated rate of 3% (university funds) and an additional $19,247 discounted at an estimated rate of 3% (Oval Limited).

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $205,510 (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, 2019, and the surplus of $135,136 is included in unrestricted net position.

At June 30, 2018, the anticipated future payments on gross claims was estimated at its present value of $51,042 discounted at an estimated rate of 3% (university funds) and an additional $19,286 discounted at an estimated rate of 3% (Oval Limited). 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) were more than the recorded liability at June 30, 2018, and the surplus of $133,283 was included in unrestricted net position.

Employee Health Insurance

The university is also self-insured for employee health insurance. As of June 30, 2019 and 2018, $37,016 and $32,997, 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, 2019 and 2018, respectively, $19,276 and $20,112 are recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Changes in reported self-insurance liabilities for the primary institution since June 30, 2017 result from the following activities:

	Malpractice		Health		Workers' Compensation	
	2019	2018	2019	2018	2019	2018
Liability at beginning of fiscal year	$ 70,328	$ 73,523	$ 32,997	$ 35,849	$ 20,112	$ 20,498
Current year provision for losses	5,381	865	348,520	335,534	6,273	15,914
Claim payments	(5,370)	(4,060)	(344,501)	(338,386)	(7,109)	(16,300)
Balance at fiscal year end	$ 70,339	$ 70,328	$ 37,016	$ 32,997	$ 19,276	$ 20,112

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

NOTE 9 — DEBT

The university may finance the construction, renovation and acquisition of certain facilities through the issuance of debt obligations, which include general receipts bonds, special purpose receipts bonds, capital lease obligations, and other borrowings.

Debt activity for the primary institution for the year ended June 30, 2019 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Direct Borrowings and Direct Placements – Notes:					
WOSU	$ 1,985	$ –	$ 159	$ 1,826	$ 159
OH Air Quality Note Series A	2,618	–	420	2,198	426
OH Air Quality Note Series B	2,340	–	–	2,340	–
St. Stephens Church Note	2,653	–	80	2,573	84
Direct Borrowings and Direct Placements – Other:					
Capital Lease Obligations	15,329	10,958	5,286	21,001	7,262
Ohio State Energy Partners	10,316	31,877	521	41,672	2,551
General Receipts Bonds – Fixed Rate					
2008A, due serially through 2028	7,570	–	7,570	–	–
2010A, due serially through 2020	40,460	–	24,135	16,325	10,200
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	66,750	–	8,530	58,220	8,910
2012B, due 2033	13,515	–	1,480	12,035	1,510
2014A, due serially through 2044	129,245	–	2,435	126,810	2,560
2016A, due serially through 2111	600,000	–	–	600,000	–
2016B, due serially through 2030	23,255	–	2,790	20,465	2,930
2017, due serially through 2028	69,950	–	–	69,950	7,035
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	–	4,840	44,960	44,960
2005B, due serially through 2035	71,575	–	8,845	62,730	62,730
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
	3,151,711	42,835	67,091	3,127,455	618,302
Unamortized Bond Premiums	81,211	–	7,883	73,328	–
Total outstanding debt	$ 3,232,922	$ 42,835	$ 74,974	$ 3,200,783	$ 618,302

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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
Direct Borrowings and Direct Placements – 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
Direct Borrowings and Direct Placements – Other:					
Capital Lease Obligations	8,548	10,508	3,727	15,329	4,630
Ohio State Energy Partners	–	10,316	–	10,316	–
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
	3,205,997	90,774	145,060	3,151,711	640,589
Unamortized Bond Premiums	86,129	12,719	17,637	81,211	–
Total outstanding debt	$ 3,292,126	$ 103,493	$ 162,697	$ 3,232,922	$ 640,589

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Debt activity for the discretely presented component units for the year ended June 30, 2019 is as follows:

	Discretely Presented Component Units				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Direct Borrowings and Direct Placements:					
OSU Physicians – Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 12,437	$ 47	$ 811	$ 11,673	$ 895
OSU Physicians – Term Loan Payable, due 2023	1,347	–	–	1,347	–
TRC Ohio Development Service Agency Note Payable	5,000	–	309	4,691	314
Campus Partners – Columbus Foundation Note Payable	1,833	–	86	1,747	88
Campus Partners – Edwards TIF Note Payable	1,650	350	2,000	–	–
Capital Lease Obligations	97	4	55	46	46
Total outstanding debt	$ 22,364	$ 401	$ 3,261	$ 19,504	$ 1,343

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
Direct Borrowings and Direct Placements:					
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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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:

	Primary Institution				
	Bonds		Direct Borrowings and Direct Placements		
	Principal	Interest	Principal	Interest	Total
2020	$ 607,820	$ 133,140	$ 10,482	$ 3,314	$ 754,756
2021	31,585	121,620	10,341	3,285	166,831
2022	33,370	120,135	7,054	2,863	163,422
2023	42,345	118,693	6,072	2,553	169,663
2024	38,020	116,726	3,266	2,405	160,417
2025–2029	166,425	558,392	16,276	9,116	750,209
2030–2034	127,385	526,364	8,452	4,999	667,200
2035–2039	120,340	502,333	6,683	2,381	631,737
2040–2044	780,515	298,880	2,984	604	1,082,983
2045–2049	358,040	204,576	–	–	562,616
2050–2054	–	170,600	–	–	170,600
2055–2059	250,000	145,300	–	–	395,300
2060–2064	–	120,000	–	–	120,000
2065–2069	–	120,000	–	–	120,000
2070–2074	–	120,000	–	–	120,000
2075–2079	–	120,000	–	–	120,000
2080–2084	–	120,000	–	–	120,000
2085–2089	–	120,000	–	–	120,000
2090–2094	–	120,000	–	–	120,000
2095–2099	–	120,000	–	–	120,000
2100–2104	–	120,000	–	–	120,000
2105–2109	–	120,000	–	–	120,000
2110–2111	500,000	48,000	–	–	548,000
	$ 3,055,845	$ 4,264,759	$ 71,610	$ 31,520	$ 7,423,734

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		
	Direct Borrowings and Direct Placements		
	Principal	Interest	Total
2020	$ 1,343	$ 348	$ 1,691
2021	2,893	586	3,479
2022	1,256	267	1,523
2023	1,256	243	1,499
2024	1,006	222	1,228
2025–2029	5,304	835	6,139
2030–2034	5,430	350	5,780
2035–2039	1,016	12	1,028
	$ 19,504	$ 2,863	$ 22,367

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

University bond indentures include provisions for Events of Default and Remedies. In general, if the university fails to pay any interest or principal when it is due and payable, the Trustee may, upon the request of the holders of at least 25% of the outstanding principal on the bonds, declare the principal and any accrued interest as immediately due and payable. For the Series 2013A Special Purpose General Receipts bonds, Events of Default also include failure 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 1.1 times the aggregate debt service for the then- current Fiscal Year on all Special Purpose General Receipts Obligations".

The university's private and direct placement debt consists primarily of long-term payables to Ohio State Energy Partners (OSEP) for capital improvements. The university's Utility System Lease and Concession Agreement with OSEP includes Events of Default, including the failure to pay the Utility Fee. If the university fails to remedy the default as specified in the agreement, OSEP may terminate the agreement and require the university to pay OSEP the Utility System Concession Value as of the date of such termination. The Utility System Concession Value is defined as the fair market value of the Concessionaire Interest in the lease and concession agreement and would include principal and interest on any outstanding long-term payables to OSEP.

The outstanding bond indentures do not require mandatory reserves for future payment of principal and interest. However, the university has set aside $342,397 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, 2019
General Receipts Bonds:		
Series 2010A	$ 13,050	$ 991
Series 2010D	4,376	4,376
	$ 17,426	$ 5,367

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019, 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, 2019 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.477%
1999B1	12%	1.282%
2001	12%	1.095%
2003C	12%	1.425%
2005B	12%	1.022%
2008B	12%	0.497%
2010E	8%	0.436%
2014B	not specified	0.721%

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 $574,675 and $588,360 at June 30, 2019 and 2018, respectively.

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, 2019 are $33,708 and $21,000, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2018 are $22,750 and $15,328, 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, 2019 and 2018 for the primary institution were $123,584 and $122,281. Of these amounts, interest of $8,500 and $5,792 were capitalized. The remaining amounts of $115,084 and $116,489 for the years ended June 30, 2019 and 2018, respectively, are reported as interest expense in the statement of revenues, expenses and changes in net position.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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 $19,692 and $23,638 for the years ended June 30, 2019 and 2018, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2019 are as follows:

Year Ending June 30,	Primary Institution	Discretely Presented Component Units
2020	$ 15,916	$ 8,148
2021	14,808	7,177
2022	14,764	6,292
2023	13,350	5,683
2024	9,673	4,812
2025–2029	46,393	16,440
2030–2034	12,199	6,794
2035–2039	275	84
2040–2044	–	54
2045–2049	–	–
2050–2054	–	–
2055–2059	–	–
2060–2064	–	–
2064 and beyond	–	–
Total minimum lease payments	$ 127,378	$ 55,484

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.

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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

NOTE 12 — OTHER LIABILITIES

Other liability activity for the primary institution for the year ended June 30, 2019 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 185,004	$ 23,204	$ 15,268	$ 192,940	$ 15,268
Self-insurance accruals	123,436	353,066	349,871	126,631	44,124
Amounts due to third party payors	66,333	61,054	50,917	76,470	27,096
Irrevocable split-interest agreements	32,728	–	1,001	31,727	3,264
Refundable advances for Federal Perkins loans	32,638	840	–	33,478	–
Other noncurrent liabilities	91,944	30,348	–	122,292	–
	$ 532,083	$ 468,512	$ 417,057	$ 583,538	$ 89,752

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

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, 2019 is as follows:

Year Ending June 30,	
2020	$ 4,150
2021	3,201
2022	2,928
2023	2,804
2024	2,256
2025–2029	5,148
2030–2034	2,412
2035–2039	300
2040–2044	10
2045–2049	10
2050–2054	10
Total minimum future rentals	$ 23,229

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, 2019 is as follows:

Year Ending June 30,	
2020	$ 23,782
2021	9,835
2022	2,732
2023	2,508
2024	2,387
2025–2029	5,700
2030–2034	245
Total minimum future rentals	$ 47,189

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 Changes in Net Position. Operating expenses by object for the primary institution for the years ended June 30, 2019 and 2018 are summarized as follows:

Year Ended June 30, 2019

	Primary Institution				
	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 937,736	$ 132,556	$ –	$ –	$ 1,070,292
Separately budgeted research	305,772	181,555	–	–	487,327
Public service	101,633	81,595	–	–	183,228
Academic support	202,555	40,405	–	–	242,960
Student services	86,559	22,607	–	–	109,166
Institutional support	227,931	81,760	––	–	309,691
Operation and maintenance of plant	37,166	98,141	–	–	135,307
Scholarships and fellowships	6,265	2,317	118,802	–	127,384
Auxiliary enterprises	211,868	149,478	–	–	361,346
OSU Health System	1,699,285	1,409,785	–	–	3,109,070
Depreciation	–	–	–	413,039	413,039
Total operating expenses	$ 3,816,770	$ 2,200,199	$ 118,802	$ 413,039	$ 6,548,810

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	93,022	–	–	123,783
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	$ 2,021,526	$ 121,854	$ 394,461	$ 5,435,763

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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.

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, 2019 are as follows:

	STRS-Ohio	OPERS	Total
Net pension liability – all employers	$ 21,987,755	$ 27,273,872	
Proportion of the net pension liability – university	4.6%	9.9%	
Proportionate share of net pension liability	$ 1,019,690	$ 2,695,368	$ 3,715,058

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

The collective net OPEB liabilities of the retirement systems and the university's proportionate share of these liabilities as of June 30, 2019 are as follows:

	STRS-Ohio	OPERS	Total
Net OPEB (asset) liability – all employers	$ (1,606,898)	$ 13,037,639	
Proportion of the net OPEB (asset) liability – university	4.6%	10.1%	
Proportionate share of net OPEB (asset) liability	$ (74,520)	$ 1,321,019	$ 1,246,499

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

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2019:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 23,538	$ 1,288	$ 24,826
Changes in assumptions	180,708	238,382	419,090
Net difference between projected and actual earnings on pension plan investments	–	380,743	380,743
Changes in proportion of university contributions	1,246	6,478	7,724
University contributions subsequent to the measurement date	77,702	107,284	184,986
Total	$ 283,194	$ 734,175	$ 1,017,369
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ 6,659	$ 41,458	$ 48,117
Net difference between projected and actual earnings on pension plan investments	61,833	–	61,833
Changes in proportion of university contributions	–	43	43
Total	$ 68,492	$ 41,501	$ 109,993

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

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 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, 2019:

	STRS-Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 8,704	$ 429	$ 9,133
Changes in assumptions	–	40,879	40,879
Net difference between projected and actual earnings on pension plan investments	–	63,078	63,078
Changes in proportion of university contributions	141	2,936	3,077
University contributions subsequent to the measurement date	–	–	–
Total	$ 8,845	$ 107,322	$ 116,167
Deferred Inflows of Resources:			
Differences between expected and actual experience	$4,342	$3,584	$7,926
Changes in assumptions	101,540	–	101,540
Net difference between projected and actual earnings on pension plan investments	8,513	–	8,513
Changes in proportion of university contributions	–	–	–
Total	$ 114,395	$ 3,584	$ 117,979

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

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
2020	162,189	352,878	515,067
2021	57,227	127,618	184,845
2022	7,345	40,118	47,463
2023	(12,059)	172,315	160,256
2024	–	(259)	(259)
2025 and Thereafter	–	4	4
Total	$ 214,702	$ 692,674	$ 907,376

The amounts above include university contributions subsequent to the measurement date.

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
2020	(18,888)	48,049	29,161
2021	(18,888)	14,323	(4,565)
2022	(18,888)	10,859	(8,029)
2023	(16,991)	30,507	13,516
2024	(16,285)	-	(16,285)
2025 and Thereafter	(15,610)	-	(15,610)
Total	$ (105,550)	$ 103,738	$ (1,812)

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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, 2020. 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 $329.3 million or 64% of the total health care costs in fiscal 2018 (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 five years of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with five years of service. For Groups A and B, the annual benefit is based on 2.2% of 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.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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, 2018, STRS Ohio received $107.2 million in Medicare Part D reimbursements.	Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare- eligible retirees could select supplemental coverage through the Connector, and may be eligible for monthly allowances deposited to an HRA to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by using managed care, case management, and other programs. Additional details on health care coverage can be found in the Plan Statement in the OPERS 2018 CAFR. OPERS no longer participates in the Medicare Part D program as of December 31, 2016. In 2018, OPERS received the final distribution of funds from the Medicare Part D program for calendar year 2016 of $378,007.
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%.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

	STRS-Ohio	OPERS
Contribution Rates	Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll. Under Ohio law, funds to pay health care costs may be deducted from employer contributions. For the year ended June 30, 2018, no employer allocation was made to the health care fund.	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2018, 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, 2018	December 31, 2018 (OPEB is rolled forward from December 31, 2017 actuarial valuation date)
Actuarial Assumptions	**Valuation Date:** July 1, 2018 for pensions; June 30, 2018 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:** -5.2% to 9.6% initial; 4% ultimate	**Valuation Date:** December 31, 2018 for pensions; December 31, 2017 for OPEB Actuarial Cost Method: Individual entry age **Investment Rate of Return:** 7.2% for pensions; 6.0% 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:** 10.0% 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, 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 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

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td></td><td></td><td>Post-retirement mortality rates for disabled retirees are based on the RP- 2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.</td></tr>
<tr><td>Date of Last Experience Study</td><td>June 30, 2016</td><td>December 31, 2015</td></tr>
<tr><td>Investment Return Assumptions</td><td>The 10 year expected real rate of return on defined benefit pension and health care plan investments was determined by STRS Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and long-term expected real rate of return for each major asset class are summarized as follows:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Domestic Equity</td><td>28.0%</td><td>7.35%</td></tr>
<tr><td>International Equity</td><td>23.0%</td><td>7.55%</td></tr>
<tr><td>Alternatives</td><td>17.0%</td><td>7.09%</td></tr>
<tr><td>Fixed Income</td><td>21.0%</td><td>3.00%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>6.00%</td></tr>
<tr><td>Liquidity Reserves</td><td>1.0%</td><td>2.25%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as geometric means</td><td>The long term expected rates of return on defined benefit pension and health care investment assets were determined using a building-block method in which best- estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The following table displays the Board- approved asset allocation policy for defined benefit pension assets for 2018 and the long-term expected real rates of return:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>23.0%</td><td>2.79%</td></tr>
<tr><td>Domestic Equity</td><td>19.0%</td><td>6.21%</td></tr>
<tr><td>Real Estate</td><td>10.0%</td><td>4.90%</td></tr>
<tr><td>Private Equity</td><td>10.0%</td><td>10.81%</td></tr>
<tr><td>International Equity</td><td>20.0%</td><td>7.83%</td></tr>
<tr><td>Other Investments</td><td>18.0%</td><td>5.50%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as geometric means</td></tr>
</table>

<table>
<tr><th></th><th>STRS-Ohio</th><th>OPERS</th></tr>
<tr><td></td><td></td><td>The following table displays the Board- approved asset allocation policy for health care assets for 2018 and the long-term expected real rates of return:
<table>
<tr><th>Asset Class</th><th>Target Allocation</th><th>Long Term Expected Return*</th></tr>
<tr><td>Fixed Income</td><td>34.0%</td><td>2.42%</td></tr>
<tr><td>Domestic Equities</td><td>21.0%</td><td>6.21%</td></tr>
<tr><td>REITs</td><td>6.0%</td><td>5.98%</td></tr>
<tr><td>International Equities</td><td>22.0%</td><td>7.83%</td></tr>
<tr><td>Other Investments</td><td>17.0%</td><td>5.57%</td></tr>
<tr><td>Total</td><td>100.0%</td><td></td></tr>
</table>
* Returns presented as arithmetic means</td></tr>
<tr><td>Discount Rate</td><td>Pensions — The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. 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, 2018.

OPEB — The discount rate used to measure the total OPEB liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members.</td><td>Pensions — The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB — A single discount rate of 3.96% was used to measure the OPEB liability on the measurement date of December 31, 2018. 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).</td></tr>
</table>

	STRS-Ohio	OPERS
	Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB liability as of June 30, 2018.	This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.
Changes in Assumptions Since the Prior Measurement Date	**Pensions** – There were no changes in assumptions since the prior measurement date of June 30, 2017. **OPEB** — The discount rate was increased from the blended rate of 4.13% to the long term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.	There has been no change in assumptions compared to prior year.
Benefit Term Changes Since the Prior Measurement Date	**Pensions** – There were no changes in benefit terms since the prior measurement date of June 30, 2017. **OPEB** — The subsidy multiplier for non- Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.	**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%.

Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.45%) $1,489,123	Current Rate (7.45%) $1,019,690	1% Increase (8.45%) $622,379	1% Decrease (6.2%) $3,994,727	Current Rate (7.2%) $2,695,368	1% Increase (8.3%) $1,616,292
Sensitivity of Net OPEB Liability to Changes in Discount Rate	1% Decrease (6.45%) $(63,871)	Current Rate (7.45%) $(74,520)	1% Increase (8.45%) $(83,471)	1% Decrease (2.96%) $ 1,690,029	Current Rate (3.96%) $ 1,321,019	1% Increase (4.96%) $ 1,027,493
Sensitivity of Net OPEB Liability to Changes in Medical Trend Rate	1% Decrease in Trend Rate $(82,966)	Current Trend Rate $(74,520)	1% Increase in Trend Rate $(65,944)	1% Decrease in Trend Rate $ 1,269,751	Current Trend Rate $ 1,321,019	1% Increase in Trend Rate $ 1,379,988

Defined Contribution Plans

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

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

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 9.53% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement health care benefits.

Combined Plans

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

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Summary of Employer Pension and OPEB Expense

Total pension and OPEB expense for the year ended June 30, 2019, 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	$ 77,781	$ 220,062	$ 60,390	$ 358,233
GASB 68 Pension Accruals	32,939	446,571		479,510
GASB 75 OPEB Accruals	(158,168)	161,088		2,920
Total Pension and OPEB Expense	$ (47,448)	$ 827,721	$ 60,390	$ 840,663

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

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

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

STRS Ohio
275 East Broad Street
Columbus, OH 43215-3371
(614) 227-4090
(888) 227-7877
www.strsoh.org

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 $5,780 and $5,191 for the years ended June 30, 2019 and 2018, respectively.

Employee contributions were $2,129 and $1,893 for the years ended June 30, 2019 and 2018.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2019, the university is committed to future contractual obligations for capital expenditures of approximately $326,824 for the primary institution and $17,500 for discretely presented component units.

These projects are funded by the following sources:

	Primary Institution	Discretely Presented Component Units
State appropriations	$ 102,081	$ –
Internal and other sources	224,743	17,500
Total	$ 326,824	$ 17,500

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.

In April 2018, after receiving a complaint from a former OSU wrestler, the university initiated an independent investigation into allegations of sexual misconduct by former OSU physician Dr. Richard Strauss. Strauss was employed from 1978-1998 and died in 2005. In May 2019, the university released a report from the independent investigators that detailed acts of sexual abuse against at least 177 former students by Dr. Richard Strauss during his employment with the university. Civil actions relating to this investigation allege

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

Title IX violations by the university. It is possible that additional lawsuits could be filed. The case is in mediation. The outcome of the pending and potential litigation is unknown at June 30, 2019, and, therefore, no accruals for future costs have been recorded in the 2019 financial statements.

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 $416,545 and $426,176 at June 30, 2019 and 2018, respectively. The university reports the parking lots and garages as capital assets with a carrying amount of $124,508 at June 30, 2019 and 2018.

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.

The university recognized fixed and O&M utility fees totaling $56,140 and $53,309, respectively for the years ended June 30, 2019 and 2018. The carrying amounts of OSEP capital investments and related payable to the concessionaire at June 30, 2019 and 2018 were $41,672 and $10,316, respectively.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019 and 2018 is presented below.

Condensed Combining Information – Year Ended June 30, 2019

	OSU Foundation	OSU Health Plan	Oval Limited	Pelotonia	Eliminations
Condensed statements of net position:					
Current assets	$ 84,921	$ 5,229	$ 51,461	$ –	$ –
Capital assets, net	2,953	112	–	–	–
Other assets	1,182,732	681	–	–	(102,265)
Total assets	$ 1,270,606	$ 6,022	$ 51,461	$ –	$ (102,265)
Current liabilities	$ 3,323	$ 1,545	$ 34	$ –	$ –
Noncurrent liabilities	60,554	494	19,247	102,265	(102,265)
Amounts payable to the university	40,025	–	–	–	–
Deferred inflows	13,795	–	–	–	–
Total liabilities and deferred inflows	117,697	2,039	19,281	102,265	(102,265)
Net investment in capital assets	2,953	–	–	–	–
Restricted:					
Nonexpendable	910,296	–	–	–	–
Expendable	225,537	–	–	–	(102,265)
Unrestricted	14,123	3,983	32,180	(102,265)	102,265
Total net position	1,152,909	3,983	32,180	(102,265)	–
Total liabilities, deferred inflows and net position	$ 1,270,606	$ 6,022	$ 51,461	$ –	$ (102,265)

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

	OSU Foundation	OSU Health Plan	Oval Limited	Pelotonia	Eliminations
Condensed statements of revenues, expenses and changes in net position:					
Operating revenues:					
Other sales, services and rental income	$ 1,583	$ 12,432	$ (344)	$ –	$ –
Total operating revenues	1,583	12,432	(344)	–	–
Operating expenses, excluding depreciation	14,164	12,483	(236)	–	–
Depreciation expense	184	48	–	–	–
Total operating expenses	14,348	12,531	(236)	–	–
Net operating income (loss)	(12,765)	(99)	(108)	–	–
Non-operating revenues and expenses:					
Gifts for current use	262,406	–	–	–	(102,265)
Net investment income (loss)	10,008	–	1,537	–	–
Other non-operating revenue (expense)	1,774	(6)	–	(102,265)	102,265
Net non-operating revenue (expense)	274,188	(6)	1,537	(102,265)	–
Capital contributions and additions to permanent endowments	71,009	–	–	–	–
Transfers from (to) the university	(244,284)	–	–	–	–
Change in net position	88,148	(105)	1,429	(102,265)	–
Beginning net position	1,064,761	4,088	30,751	–	–
Ending net position	$ 1,152,909	$ 3,983	$ 32,180	$ (102,265)	$ –
Condensed statements of cash flows:					
Net cash provided (used) by:					
Operating activities	$ (10,507)	$ 245	$ (1,591)	$ –	$ –
Noncapital financing activities	(2,256)	–	–	–	–
Capital and related financing activities	25,476	(52)	–	–	–
Investing activities	8,063	(44)	1,511	–	–
Net increase (decrease) in cash	20,776	149	(80)	–	–
Beginning cash and cash equivalents	22,859	4,315	1,290	–	–
Ending cash and cash equivalents	$ 43,635	$ 4,464	$ 1,210	$ –	$ –

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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, 2019 and 2018 is presented below.

Condensed Combining Information – Year Ended June 30, 2019

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 200,538	$ 8,646	$ 12,236	$ 1,713
Capital assets, net	26,809	105,505	31,610	228
Other assets	–	2,461	–	–
Amounts receivable from the university	18,355	–	3,991	–
Deferred outflows	–	–	24	–
Total assets and deferred outflows	$ 245,702	$ 116,612	$ 47,861	$ 1,941
Current liabilities	$ 16,645	$ 5,525	$ 6,851	$ 277
Noncurrent liabilities	12,124	26,264	4,572	–
Amounts payable to the university	19,569	90,602	9,451	284
Deferred inflows	–	–	13	–
Total liabilities and deferred inflows	48,338	122,391	20,887	561
Net investment in capital assets	13,682	103,184	26,920	(56)
Unrestricted	183,682	(108,963)	54	1,436
Total net position	197,364	(5,779)	26,974	1,380
Total liabilities, deferred inflows and net position	$ 245,702	$ 116,612	$ 47,861	$ 1,941

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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	$ –	$ 10,857	$ 39,124	$ –
Sales and services of OSU Physicians	560,322	–	–	–
Other sales, services and rental income	–	–	–	9,440
Total operating revenues	560,322	10,857	39,124	9,440
Operating expenses, excluding depreciation	507,366	9,153	37,133	9,403
Depreciation expense	3,581	2,920	892	74
Total operating expenses	510,947	12,073	38,025	9,477
Net operating income (loss)	49,375	(1,216)	1,099	(37)
Non-operating revenues and expenses:				
Net investment income	2,373	222	29	–
Interest expense	(376)	(138)	(446)	–
Other non-operating revenue (expense)	(23,384)	605	21	(132)
Net non-operating revenue (expense)	(21,387)	689	(396)	(132)
Changes in net position				
Capital contributions and changes in net position	–	5,250	14,677	–
Change in net position	27,988	4,723	15,380	(169)
Beginning net position, as previously reported	169,376	(10,502)	11,594	1,549
Cumulative effect of accounting change	–	–	–	–
Ending net position	$ 197,364	$ (5,779)	$ 26,974	$ 1,380
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 39,180	$ 3,964	$ 2,536	$ 217
Noncapital financing activities	(23,473)	9,366	7,662	(133)
Capital and related financing activities	(4,372)	(12,415)	(12,027)	(90)
Investing activities	(7,716)	36	199	(96)
Net increase (decrease) in cash	3,619	951	(1,630)	(102)
Beginning cash and cash equivalents	128,332	2,444	4,779	543
Ending cash and cash equivalents	$ 131,951	$ 3,395	$ 3,149	$ 441

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(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)
Changes 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

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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 $221,757 and $214,631 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 is as follows:

Segment Disclosure Information – Year Ended June 30, 2019 and June 30, 2018

	2019	2018
Condensed Statement of Net Position		
Assets and deferred outflows:		
Current assets	$ 27,489	$ 26,645
Capital assets	715,499	724,651
Total assets	$ 742,988	$ 751,296
Liabilities and deferred inflows:		
Current liabilities	$ 7,279	$ 7,751
Amounts payable to the university	721,238	738,540
Total liabilities	728,517	746,291
Net position:		
Net investment in capital assets	(5,739)	(13,889)
Unrestricted	20,210	18,894
Total net position	14,471	5,005
Total liabilities and net position	$ 742,988	$ 751,296

	2019	2018
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Special-purpose pledged revenues – operating	$ 221,757	$ 214,631
Operating expenses, excluding depreciation	(150,933)	(145,243)
Depreciation expense	(35,021)	(34,103)
Operating income	35,803	35,285
Nonoperating revenues, net	(30,478)	(39,618)
Net income (loss) before transfers	5,325	(4,333)
Transfers from (to) other university units, net	4,141	18,375
Increase (decrease) in net position	9,466	14,042
Beginning net position	5,005	(9,037)
Ending net position	$ 14,471	$ 5,005
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 103,485	$ 85,641
Capital and related financing activities	(103,296)	(87,477)
Investing activities	645	278
Net increase (decrease) in cash	834	(1,558)
Beginning cash and cash equivalents	25,603	27,161
Ending cash and cash equivalents	$ 26,437	$ 25,603

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

NOTE 23 – EVENTS SUBSEQUENT TO ORIGINAL ISSUANCE OF FINANCIAL STATEMENTS (UNAUDITED)

Effective March 22, 2020, the university is under a state of emergency due to the COVID-19 outbreak. To comply with the restrictions from the Ohio Governor, the university transitioned to virtual learning for the remainder of spring and for summer semester. Students moved out of the residence halls and were refunded housing, dining and recreation fees for the remainder of spring term. All university employees who can do so are required to work from home. Major facilities on campus are closed, and all campus events have been canceled through July 6.

The COVID-19 outbreak also has significantly impacted OSU Wexner Medical Center operations. On March 17, 2020, the Director of the Ohio Department of Health issued an order temporarily recommending that non-essential or elective surgeries and procedures not be conducted at Ohio hospitals. The temporary suspension of performance of elective procedures was recommended to create capacity for a potential increase in COVID-19 patients.

The university has instituted a hiring freeze for all non-essential positions through June 30, 2020, has slowed or modified certain capital projects and is engaged in financial contingency planning. The Wexner Medical Center is currently engaged in a budgetary control and contingency planning initiative. The recommendation from the Ohio Department of Health to suspend non-essential or elective surgeries and procedures was withdrawn effective on May 1, 2020, but it is not presently possible to determine whether or when the volume of non-essential or elective surgeries and procedures will return to pre-pandemic levels.

The university has launched a post-pandemic operations task force to develop a plan to transition back to on-campus operations. On June 3, 2020, the university announced that it will resume in-person classes for the autumn semester.

The COVID-19 outbreak has caused domestic and global disruption in operations for institutions of higher education. The impact (i) may materially affect the ability of the university to conduct its operations and/or the cost of operations and (ii) has negatively impacted the financial markets and has and may continue to materially affect the returns on and value of the university's investments.

Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for campus housing and decline in philanthropic donations. The full impact of COVID-19 and the scope of any adverse impact on the university's finances and operations cannot be fully determined at this time.

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

The Ohio State University
Required Supplementary Information on GASB 68 Pension Liabilities (Unaudited)
Year Ended June 30, 2019

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

	2019		2018		2017		2016		2015	
(dollars in thousands)	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS
University's proportion of the net pension liability	4.6%	9.9%	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	$1,019,690	$2,695,368	$ 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	$434,106	$ 1,521,447	$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	235%	177%	262%	106%	385%	159%	319%	126%	281%	89%
Plan fiduciary net position as a percentage of the total pension liability	77.3%	74.9%	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:

	2019		2018		2017		2016		2015	
(dollars in thousands)	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS	STRS–Ohio	OPERS
Contractually required contribution	$77,781	$220,062	$74,356	$ 201,072	$ 70,373	$ 188,762	$66,975	$ 178,293	$65,738	$ 170,979
Contributions in relation to the contractually required contribution	$77,781	$220,062	$74,356	$ 201,072	$ 70,373	$ 188,762	$66,975	$ 178,293	$65,738	$ 170,979
Contribution deficiency (excess)	$–	$–	$–	$–	$–	$–	$–	$–	$–	$–
University's covered payroll	$452,084	$ 1,525,502	$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	17.2%	14.4%	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, 2019

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

(dollars in thousands)	2019 STRS-Ohio	2019 OPERS	2018 STRS-Ohio	2018 OPERS
University's proportion of the net OPEB liability	4.6%	10.1%	4.6%	9.7%
University's proportionate share of the net OPEB liability	$ (74,520)	$ 1,321,019	$ 177,556	$ 1,055,239
University's covered payroll	$ 434,106	$ 1,521,447	$ 412,149	$ 1,381,054
University's proportionate share of the net OPEB liability as a percentage of its covered payroll	–17%	87%	43%	76%
Plan fiduciary net position as a percentage of the total OPEB liability	176.0%	46.3%	47.1%	54.1%

The Ohio State University
Supplementary Information on the Long-Term Investment Pool (Unaudited)
Year Ended June 30, 2019

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 2019, the fair 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 $45 million, to $5.26 billion at June 30, 2019. The Long-Term Investment Pool activity for 2019 is summarized below:

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments		Quasi-Endowments		
	University	Foundation	Operating	Designated	Total
Balance at June 30, 2018	**$ 1,104,236**	**$ 958,750**	**$ 1,208,769**	**$ 1,939,679**	**$ 5,211,434**
Net Principal Additions (Withdrawals)	3,367	43,443	121,770	54,768	223,348
Change in Fair Value	1,218	1,533	2,781	1,530	7,062
Income Earned	22,239	19,705	25,237	39,454	106,635
Distributions	(46,093)	(40,747)	(52,062)	(81,114)	(220,016)
Expenses	(14,959)	(13,255)	(16,961)	(26,529)	(71,704)
Balance at June 30, 2019	**$ 1,070,008**	**$ 969,429**	**$ 1,289,534**	**$ 1,927,788**	**$ 5,256,759**

Notes to Financial Statements – Years Ended June 30, 2019 and 2018

(dollars in thousands)

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, 2019. **Income earned** includes interest and dividends and is used primarily to fund **distributions. Expenses** include investment management expenses ($52 million), University Development related expenses ($19 million) and other investment related expenses ($1 million).

Investment Returns and Expenses:

The investment return for the Long-Term Investment Pool was 1.2% for fiscal year 2019. The annualized investment returns for the three-year and five-year periods were 7.7% and 4.6%, 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 $52 million of investment management expenses, which reduced the pool by 1.0% in fiscal 96 year 2019, the $19 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).

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