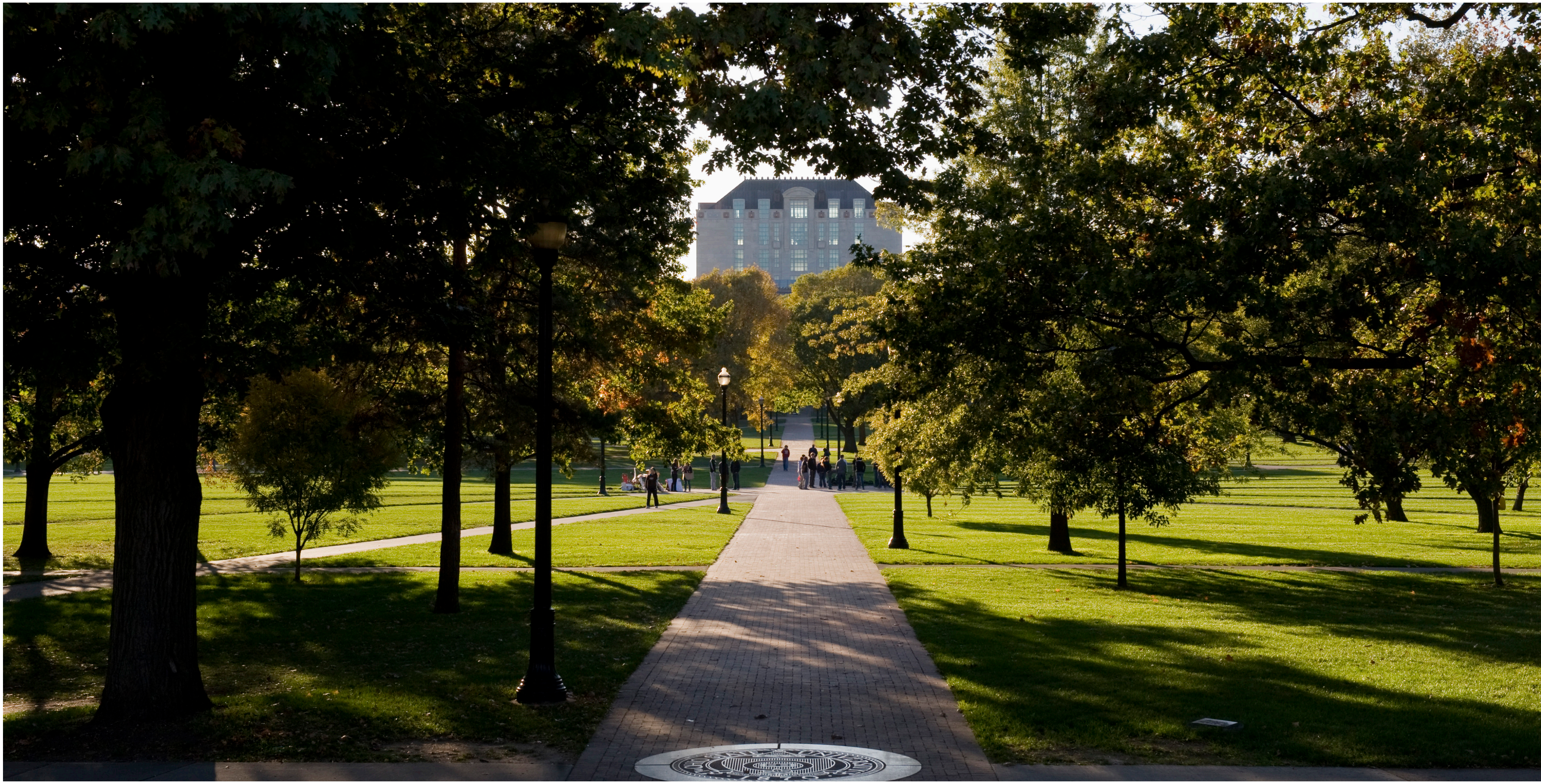
2016 Annual Financial Report



The Ohio State University

Contents

Message from the President

Dr. Michael V. Drake

As a leading national public research university, Ohio State is driven to make a difference in the world.

This is why we invest in access, affordability and excellence – three pillars of our commitment to enhance teaching, learning, research and patient care.

In the past year, Ohio State extended our comprehensive freeze on in-state tuition, mandatory fees, room and board for a second straight year. Simultaneously, we expanded our President's Affordability Grants program to provide $20 million in need-based aid.

Ohio State continues to invest in the excellence of our faculty through the University Institute for Teaching and Learning and other initiatives to enhance academics. Our researchers are making discoveries that will benefit every field of knowledge.

At the Wexner Medical Center, we have followed a $1.1 billion expansion by opening the new Brain and Spine Hospital and Jameson Crane Sports Medicine Institute to enhance our services. Amid those changes, the medical center maintains consistent quality, ranking among the nation's best for quality and patient safety.

These commitments are possible because the university imposes the financial discipline to control costs. At the same time, we are generating resources needed to advance our mission.

Last year, we concluded the most successful fundraising campaign in our 147-year history, raising more than $3 billion from more than 750,000 donors. This shattered our goal of $2.5 billion and is believed to set a new mark for the most donors ever to a higher education campaign.

Ohio State is proud of our progress but always looking forward to new ways to build on our status as an exemplary 21st century public university.

Sincerely,

Michael V. Drake, MD
President

Transformation in Action | Report from the Chief Financial Officer

Geoff Chatas

ACCESS, AFFORDABILITY AND EXCELLENCE

EXPANDED PRESIDENT'S AFFORDABILITY GRANTS ALLOTTED

$20 MILLION

FOR LOW- AND MIDDLE-INCOME STUDENTS

Our financial strategy continues to support Ohio State's mission and the university's focus on access, affordability and excellence.

Through efficient operations and innovative approaches, we are achieving tangible results for the students and patients we serve.

- Tuition and mandatory fees for Ohio residents have not changed since 2012-13, so two straight classes of students are graduating without experiencing an increase.
- The university expanded the President's Affordability Grants program to all Ohio State campuses in fiscal 2017, allotting $20 million in aid for low- and middle-income students.
- A new $10 million endowment, funded through an innovative academic and athletic partnership with Nike, is supporting the new University Institute for Teaching and Learning.
- And our Wexner Medical Center continues to win recognition for superior quality and patient safety in the first full year after opening a $1.1 billion tower that significantly expanded our capacity.

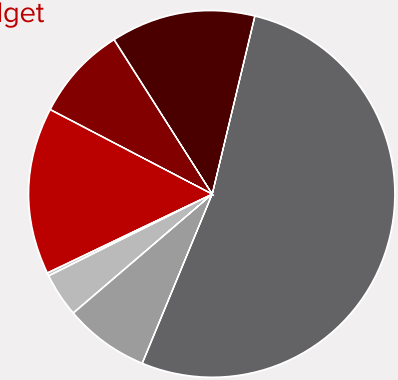
These achievements are possible because the members of Ohio State's financial team are careful stewards of the university's resources as well as innovative thinkers. The university maintains stable AA or AA1 credit ratings from all three agencies. Meanwhile, Bond Buyer has recognized Ohio State twice in five years in its Deal of the Year awards for financial approaches that allow us to maximize opportunities to support teaching, learning, research and patient care.

In 2016, the university won Bond Buyer's Midwest region award for utilizing a "shelf"-like registration process for issuing municipal bonds that enhanced transparency. In 2012, Ohio State won in the nontraditional financing category for a 50-year parking concession that is supporting financial aid, faculty positions, the Arts District and campus transportation.

I am pleased to share this snapshot of Ohio State's strength and forward-thinking financial strategy.

Revenue Sources
Fiscal 2016 University Budget
(in millions)

Tuition	$885
State appropriations	492
Grants and contracts	760
Patient care	3,113
Sales and services	437
Gifts	232
Net investment income	(10)
Total Revenues	**$ 5,909**



10 new facilities and improvements to three existing residence halls made in the North Residential District

Renovations to Pomerene, Baker and Oxley Halls continued

Jameson Crane Sports Medicine opened, supporting the intersection of academic, medical and athletic disciplines

Enhancing our campus

Ohio State is constantly investing in new academic and health care facilities as part of our commitment to our students, patients, faculty and staff.

In the past year, we completed the transformation of the North Residential District, a $371 million project to expand and enhance student housing and related amenities.

This project has revamped the northeastern gateway to our Columbus campus and provided additional living-learning spaces to support the Second-year Transformational Experience Program, which is designed to enhance student success. In all, the project added 10 new facilities and improved three existing residence halls in the North Residential District.

Meanwhile, work continues on the $59 million renovation of Pomerene, Baker and Oxley halls to house the university's data analytics, linguistics and art history program. And this fall, we opened the $38 million Jameson Crane Sports Medicine Institute, a collaborative space that supports the intersection of academic, medical and athletic disciplines.

These examples speak to the university's continuing focus on creating modern, flexible spaces that connect disciplines for better outcomes.

Innovative funding

The university continues to pursue strategies to generate additional funding to support our mission without expanding our reliance on tuition or tax dollars.

In January, Ohio State signed a 15-year extension of its relationship with Nike that created significant benefits for both student-athletes and the broader student body. Among other benefits, funding from the extension is supporting need-based non-athletic scholarships, internships for both athletes and non-athletes and the University Institute for Teaching and Learning.

We continue to reap the benefits of previous agreements.

For example, Ohio State entered into 50-year lease of its parking operations in 2012. The university invested the $483 million payment into its Long-Term Investment Pool to provide ongoing support for university priorities.

In less than five years, earnings from that investment have already generated more than $100 million in distributions for student scholarships, faculty positions, improvements to the Arts District and campus transportation. In the past year alone, more than 400 students received grants from those funds for everything from summer research to the Eminence Fellows program.

The university also continues to explore the Comprehensive Energy Management Project, which has the potential to help us make significant progress toward our sustainability goals while providing resources for our academic mission.

If the university decides to enter into an agreement for this project, a private partner would implement energy conservation measures to improve the university's sustainability, operate our energy system, help us procure energy sources and support academic collaboration.

Arthur G. James Cancer Hospital and Richard J Solove Research Institute closed its first full year of operations

Wexner Medical Center

The new 21-story tower that contains the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute represents the largest development project in the university's history.

In fiscal 2016, the first full year of operations, the new James helped boost patient volumes at the medical center while maintaining our high quality and safety standards. Overall, inpatient admissions increased 2 percent and outpatient visits increased 3.6 percent, supporting operating revenue growth of 11 percent.

Meanwhile, the Wexner Medical Center was one of 13 academic medical centers nationwide to receive the Bernard A. Birnbaum, MD, Quality Leadership Award.

Looking forward

The university's focus on access, affordability and excellence drives our financial strategy, as does our belief that broader economic trends will continue to constrain the traditional sources of funding for higher education.

Ohio State is therefore committed to both efficiencies and new resource generation to support investments in key priorities. President Drake's 2020 Vision set out a plan to generate or redirect $400 million over five years, and we continue to make progress on both the cost-containment and resource-generation aspects of those goals.

As a national flagship public research university, Ohio State is committed to making an impact that is both broad and deep. Our financial team is dedicated to that same mission and is constantly working to supply the resources to fuel the teaching, learning, research and patient care activities at our core.

Sincerely,

Geoff Chatas
Chief Financial Officer and Senior Vice President
Office of Business and Finance

Report of Independent Auditors

Report of Independent Auditors

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

We have audited the financial statements of The Ohio State University (the "University"), a component unit of the State of Ohio, appearing on pages 20 to 69, which consist of the statements of net position as of June 30, 2016 and June 30, 2015, the related statements of revenues, expenses, and other changes in net position and of cash flows, and the related notes to the financial statements for the years then ended, of the primary institution and of the aggregate discretely presented component units, 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.

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
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Report of Independent Auditors

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary institution and the aggregate discretely presented component units of the University as of June 30, 2016 and June 30, 2015, 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.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 9 through 19, and the Required Supplementary Information on GASB 68 Pension Liabilities on page 70 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 page 71 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

November 3, 2016

Management's Discussion and Analysis | Year ended June 30, 2016 (unaudited) | The Ohio State University

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, 2016, with comparative information for the years ended June 30, 2015 and June 30, 2014. 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 65,000 students, 6,800 faculty members and 24,000 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, 157 master's degree programs, 121 doctoral programs and seven professional degree programs.

The Ohio State University Wexner Medical Center is one of the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, The Ohio State University Specialty Care Network, Dodd Rehabilitation Hospital, The Eye and Ear Institute, The Stefanie Spielman Comprehensive Breast Center, and operates Ambulatory and Primary Care sites throughout central Ohio. The Health System provided services to approximately 59,300 adult inpatients and 1,724,000 outpatients during fiscal year 2016, 58,200 adult inpatients and 1,664,000 outpatients during fiscal year 2015, and 57,000 adult inpatients and 1,593,000 outpatients during fiscal year 2014.

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 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*.

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

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

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

- OSU Physicians, Inc. (the practice group for physician faculty members of the Colleges of Medicine and Public Health)

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

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

About the Financial Statements

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

The **Statement of Net Position** is the university's balance sheet. It reflects the total assets, deferred outflows, liabilities, deferred inflows and net position (equity) of the university as of June 30, 2016, with comparative information as of June 30, 2015. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at fair value. Capital assets, which include the university's land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

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

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

The **Statement of Revenues, Expenses and Other Changes in Net Position** is the university's income statement. It details how net position has increased (or decreased) during the year ended June 30, 2016, with comparative information for the year ended June 30, 2015. 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 will generally 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. 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, 2016, with comparative information for the year ended June 30, 2015. 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 information on the university's Long-Term Investment Pool.

Financial Highlights and Key Trends

Total net position for the primary institution increased $63 million in Fiscal Year 2016, primarily due to revenue growth and increases in operating margins for the OSU Health System. University investments yielded an $11 million net investment loss, reflecting declines in fair value. Two March 2016 bond issues, totaling $631 million, increased the university's long-term debt to $3.37 billion at June 30, 2016.

Demand for an Ohio State education remains strong, and student outcomes continue to improve. 65,184 students were enrolled in Autumn 2015, up 316 students compared to Autumn 2014. 94% of the freshmen enrolled in Autumn 2014 returned to OSU in Autumn 2015. Over the past five years, four-year graduation rates have increased from 51% to 59%, and six-year graduation rates have increased from 78% to 83%.

The following sections provide additional details on the university's 2016 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Statement of Net Position

During the year ended June 30, 2016, **cash and temporary investment** balances increased $190 million, to $1.97 billion, primarily due to strong operating margins at the OSU Health System. Amounts shown as restricted cash consist primarily of unspent proceeds from the General Receipts Bonds, which are being used to fund various capital projects. The Statement of Cash Flows, which is discussed in more detail below, provides additional information on sources and uses of university cash.

Accounts receivable, net of allowances, increased $28 million, to $513 million at June 30, 2016, primarily due to increases in patient care receivables of the Health System. **Inventories and prepaid expenses** increased $28 million, to $111 million, reflecting increases in prepayments for contractual services.

The fair value of the university's **long-term investment pool** decreased $43 million, to $3.62 billion at June 30, 2016. Increases in the pool, including $235 million of principal additions and $71 million of interest and dividend income, were offset by distributions ($145 million), expenses ($74 million) and a $129 million decline in fair value. 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 operating funds which 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 totaled $28 million at June 30, 2016 and is reflected 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 $40 million, to $133 million, at June 30, 2016.

Statement of Net Position (in thousands)

	2016	2015	2014
Cash and temporary investments	$ 1,971,929	$ 1,782,051	$ 1,404,608
Receivables, inventories, prepaids and other current assets	709,872	664,402	611,238
Total current assets	2,681,801	2,446,453	2,015,846
Restricted cash	802,707	375,425	435,293
Noncurrent notes and pledges receivable	106,629	118,257	117,159
Long-term investment pool	3,616,562	3,659,387	3,613,866
Other long-term investments	132,971	93,367	84,731
Capital assets, net of accumulated depreciation	4,852,433	4,803,242	4,492,896
Total noncurrent assets	9,511,302	9,049,678	8,743,945
Total assets	12,193,103	11,496,131	10,759,791
Deferred outflows	698,125	227,083	8,650
Total assets and deferred outflows	$ 12,891,228	$ 11,723,214	$ 10,768,441
Accounts payable and accrued expenses	$ 469,216	$ 447,364	$ 391,064
Deposits and advance payments for goods and services	216,372	261,537	229,530
Current portion of bonds, notes and lease obligations	658,418	655,919	504,165
Other current liabilities	94,883	76,788	47,445
Total current liabilities	1,438,889	1,441,608	1,172,204
Noncurrent portion of bonds, notes and lease obligations	2,714,842	2,186,090	2,101,363
Net pension liability	2,794,626	2,130,432	-
Other noncurrent liabilities	401,708	380,382	373,305
Total noncurrent liabilities	5,911,176	4,696,904	2,474,668
Total liabilities	7,350,065	6,138,512	3,646,872
Deferred inflows	587,150	693,251	484,450
Net investment in capital assets	2,282,647	2,340,342	2,320,611
Restricted:			
Nonexpendable	1,370,064	1,355,560	1,281,640
Expendable	908,953	993,000	999,029
Unrestricted	392,349	202,549	2,035,839
Total net position	4,954,013	4,891,451	6,637,119
Total liabilities, deferred inflows and net position	$ 12,891,228	$ 11,723,214	$ 10,768,441

Capital assets, which include the university's land, buildings, improvements, equipment and library books, increased $49 million, to $4.85 billion at June 30, 2016. 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).

The most significant project completed in 2016 was the North Residential District Transformation (NRDT) student facilities project. The NRDT encompassed ten new buildings including dormitories and dining halls, the related enabling infrastructure and landscaping, and improvements to three existing housing facilities for second-year students. The $371 million project is in alignment with the Second-Year Transformational Experience Program (STEP) and its commitment to achieving on-campus residency for the majority of second year undergraduates.

Also completed in 2016 was a $15 million boiler replacement project in the McCracken Power Plant facility, phase one of the Veterinary Hospital project which included $12 million of renovations to 97,000 gross square feet of the existing facility, and an $8 million renovation and enhancement to the Wilce Student Health Center.

Major infrastructure improvements completed in 2016 included $13 million related to the replacement of tunnel sections beneath College Road and 18th and 19th Avenues and the second phase of the East Regional Chiller Plant project, which encompassed connectivity to the NRDT and additional tunnel replacements in the Academic Core North.

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

- Arts & Science Academic Buildings — The $59 million project will renovate Pomerene, Baker and Oxley Halls to accommodate academic programs. The first phase of the project, Baker Commons, is slated for completion in the spring of 2018.
- Jameson Crane Sports Medicine Institute – The $38 million project, slated for completion in the fall of 2016, will construct a state-of-the-art, comprehensive sports medicine facility housing 15 interdisciplinary specialties and 160 sports medicine faculty and staff.
- Covelli Multi-Sport Arena – The $30 million project will construct a new multi-sport arena to house the men's and women's varsity volleyball teams and fencing, wrestling, and gymnastics matches. The project is in the design phase and slated for completion in the spring of 2018.
- Ohio Stadium Upgrades – The $42 million project will include power upgrades, suite expansion and renovation, C-Deck restoration and a suite and loge addition. The project is currently in the design phase and slated for completion for the summer of 2017.
- Student Athlete Development Center – The $32 million project will construct a state-of-the-art athletic training center with new weight training and cardio conditioning for use by most of the university's sports programs. The project is in the design phase and slated for completion the summer of 2018.
- Schottenstein Center-North Expansion and Concourse Renovation — The $32 million project will renovate the concourse walls and lighting and include an addition to the north end of the facility. The initial phase of the project is slated for completion in late 2017.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $189 million at June 30, 2016.

Accounts payable and accrued expenses were up $22 million, to $469 million at June 30, 2016, reflecting increases in payables to vendors for supplies and services. **Deposits and advance payments for goods and services** decreased $45 million, to $216 million. This decrease is primarily due to a shift in the academic calendar for summer term, which reduced unearned tuition revenues at June 30.

University debt, in the form of **bonds, notes and capital lease obligations**, increased $531 million, to $3.37 billion at June 30, 2016. On March 4, 2016, the university closed on $600 million in taxable Fixed Rate General Receipts Bonds, Series 2016 A and $31 million in tax-exempt Fixed Rate General Receipts Bonds, Series 2016 B. The 2016 A bonds will pay interest semiannually with final maturities on December 1, 2046 and 2056. The interest rates on the two term bonds are 3.80% and 4.05%.

The proceeds of the 2016 A bonds will be used for the continuation of an ongoing program of improvements to the capital plant of the university. The Series 2016 B bonds will have semiannual interest payments and annual principal payments until final maturity on June 1, 2030 with interest rates ranging from 3% to 5%. The proceeds of the 2016 B bonds refunded the Series 2005 A bonds.

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 $596 million at June 30, 2016 and 2015.

GASB Statement No. 68 requires governmental employers participating in defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. The university participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio. Under GASB 68, the university is required to record a liability for its proportionate share of the net pension liabilities of the retirement systems. The university's share of these **net pension liabilities** increased $664 million, to $2.79 billion at June 30, 2016. Total net pension liabilities increased at both STRS-Ohio and OPERS, reflecting increases in actuarial liabilities and reductions in fiduciary net position. Deferred outflows associated with pension liabilities increased $457 million and deferred inflows decreased $96 million, primarily due to deferrals for lower-than-projected investment returns. Total pension expense recognized by the university increased $157 million, to $410 million in 2016. Total pension expense includes $299 million of employer contributions and $111 million in GASB 68 accruals.

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 funding. Although the liabilities recognized under GASB 68 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 liabilities, deferrals and related expense.

Other (non-pension) **deferred inflows** consist primarily of the unamortized proceeds of the parking service concession arrangement. The parking deferred inflows, which totaled $445 million at June 30, 2016, are being amortized to operating revenue on a straight-line basis over the 50-year life of the agreement. In addition, the deferred inflows include $19 million of deferred gains on debt-related transactions.

Prior-Year Highlights: *In 2015*, the university implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adoption of the new standard resulted in a $2.16 billion reduction in the university's opening unrestricted net position. The net pension liability recognized by the university at June 30, 2015 was $2.13 billion. Capital assets grew $310 million, to $4.80 billion, as the university completed several large projects and continued work on the North Residential District Transformation (NRDT). ***In 2014***, the fair value of the university's long-term investment pool increased $465 million, to $3.61 billion, primarily due to $577 million of net investment income. Capital assets increased $357 million, to $4.49 billion, reflecting capital expenditures for the Medical Center Expansion, the Chemical and Bio-molecular Engineering and Chemistry Building and infrastructure improvements.

Statement of Revenues, Expenses and Other Changes in Net Position

Net **tuition and fees** increased $35 million, to $885 million in 2016, primarily due to a 4% increase in non-resident enrollments. Resident enrollments declined 1%. The university did not increase its undergraduate instructional and mandatory fees for fiscal 2016.

Operating **grant and contract revenues** decreased $26 million, to $631 million in 2016. Federal grant and contract revenues were down $8 million, primarily due to declines in HRSA (hospital expansion) and Reading Recovery funding, which were partially offset by increases in funding for the National Longitudinal Survey. State grants and contract revenues were down $18 million, reflecting decreases in Ohio Research Scholar capital grants and Ohio Department of Education projects. Total revenues for sponsored research programs administered by the Office of Sponsored Programs decreased $13 million, to $493 million.

Educational and general expenses increased $121 million, or 5%, to $2.36 billion in 2016. Additional details are provided below.

Approximately $64 million of the overall increase in educational and general expense is related to GASB 68 pension accruals. These accruals are allocated to functional expense lines in the Statement of Revenues, Expenses and Other Changes in Net Position, based on pension-eligible salaries. Total educational and general salaries increased $30 million, or 2.5%, reflecting budgeted salary increases for faculty and staff.

Total **auxiliary revenues** increased $1 million, to $262 million in 2016. Revenues were flat for Athletics, Student Life and other major auxiliary operations. **Auxiliary expenses** were up $5 million, to $254 million, reflecting increases in salary and benefit expenses.

Health System operating revenues grew $267 million, to $2.63 billion in 2016. Operating expenses (excluding depreciation, interest and transfers) increased $281 million, to $2.25 billion. An in-depth look at the Health System, as presented in their stand-alone financial statements, is provided below.

The Health System operates nearly 1,300 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. The Wexner Medical

Educational and General Expenses (in thousands)

	2016	2015	2014
Instruction and departmental research	$ 994,287	$ 940,105	$ 938,385
Separately budgeted research	444,077	434,624	437,497
Public service	160,281	131,358	131,389
Academic support	207,688	192,140	188,641
Student services	103,784	100,229	96,892
Institutional support	227,157	230,749	278,052
Operation and maintenance of plant	101,007	95,866	98,678
Scholarships and fellowships	120,962	112,944	110,601
Total	$ 2,359,243	$ 2,238,015	$ 2,280,135

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

	2016	2015	2014
Operating Revenues:			
Tuition and fees, net	$ 884,805	$ 850,289	$ 815,743
Grants and contracts	630,858	657,238	626,992
Auxiliary enterprises sales and services, net	261,761	261,351	228,997
OSU Health System sales and services, net	2,625,075	2,357,824	2,120,891
Departmental sales and other operating revenues	173,882	181,532	207,502
Total operating revenues	4,576,381	4,308,234	4,000,125
Operating Expenses:			
Educational and general	2,359,243	2,238,015	2,280,135
Auxiliary enterprises	254,137	248,879	241,915
OSU Health System	2,251,030	1,970,124	1,839,645
Depreciation	351,901	335,881	260,367
Total operating expenses	5,216,311	4,792,899	4,622,062
Net operating loss	(639,930)	(484,665)	(621,937)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	456,063	435,824	440,924
Gifts – current use	156,737	163,800	138,230
Net investment income (loss)	(10,513)	173,295	620,605
Grants, interest expense and other non-operating	(11,135)	25,699	4,533
Net non-operating revenue	591,152	798,618	1,204,292
Income (loss) before other changes in net position	(48,778)	313,953	582,355
State capital appropriations	36,381	40,868	54,808
Private capital gifts	10,422	1,688	5,486
Additions to permanent endowments	64,537	62,295	54,286
Total other changes in net position	111,340	104,851	114,580
Increase in net position	62,562	418,804	696,935
Net position – beginning of year	4,891,451	6,637,119	5,940,184
Cumulative effect of accounting change	-	(2,164,472)	-
Net position – end of year	$ 4,954,013	$ 4,891,451	$ 6,637,119

Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 24 consecutive years as one of "America's Best Hospitals" and has eight nationally ranked specialties and is one of only a handful of hospitals in the country ranked in multiple specialties. The Medical Center is ranked in the top three percent of U.S. hospitals, the number two hospital in Ohio, and the best hospital in central Ohio demonstrating its commitment to serving the healthcare needs of the region. The Wexner Medical Center is the only medical center in Ohio to receive the Bernard A Birnbaum, MD, Quality Leadership Award from Vizient. This is the third consecutive year to receive this award given to academic medical centers that have demonstrated excellence in delivering high-quality care, as measured by the Vizient Quality and Accountability Study. The Health System works with a strong physician group that provides exceptional patient care. Seventy five percent of the central Ohio honorees listed on "Best Doctors in America" list were Ohio State faculty.

The largest development project in the history of The Ohio State University was completed in fiscal 2015. Included in the project was the construction of the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute ("The James"). The new tower is a transformational facility that fosters the collaboration and integration of cancer research and clinical cancer care. The James is the largest cancer hospital in the Midwest and the third largest in the nation. The new 21-level tower opened in December 2014. The James experienced solid volume growth in the past year as 2016 represented the first full fiscal year after the opening of the new tower. Additionally, the project included an expansion of the emergency department which has increased the number of treatment spaces from 72 to 115. The expansion of the emergency department has contributed to the growth in Health System volume.

In 2016, the Health System continued with the Medical Center mission of "improving people's lives through innovation in research, education and patient care" and remained financially sound due to solid activity levels and strong expense management. Inpatient admissions increased 2.0% compared with prior year. Outpatient visits increased 3.6% and total observation patients increased 19.4% over the previous year. Outpatient visits experienced significant growth at the James Cancer Hospital specific to surgical, radiation oncology, and chemotherapy. This growth in outpatient services is consistent with the industry trend of more care delivered in the outpatient setting. The Health System will continue its ambulatory expansion strategy and meeting the needs of the community with the Upper Arlington outpatient facility in Kingsdale and The Jameson Crane Sports Medicine Institute set to open in fiscal 2017.

The Health System continued to experience strong volumes in cancer, cardiac surgery, transplant, orthopedic surgery, neurology and neurosurgery, and hospital medicine which contributed to increases in admissions, revenues, and outpatient volumes. Contributing to the strong volumes, the Health System received approval from Centers for Medicare and Medicaid Services (CMS) to perform lung transplants in fiscal 2016 which has enhanced an already strong transplant program.

Total operating revenues grew $259.9 million, or 11.0% from the prior year. The increases in operating revenues are a result of the additional volumes related to Medical Center Expansion and the new James Cancer Hospital being open for the entire fiscal year and strong revenues related to the Retail Pharmacy. Total operating revenues grew $237.6 million, or 11.2% from 2014 to 2015. The increases from 2014 to 2015 is a result of increased volume related to the opening of the new James Cancer Hospital, an increase in the insured population and reduced self-pay, and Medicaid expansion.

Approximately 94% of total operating revenues are from patient care activities. Other operating revenue is composed of items such as reference labs, cafeteria operations, rental agreements and other sources. To ensure appropriate access and education for outpatients, the Health System opened the Retail Pharmacy due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. The Retail Pharmacy contributed $70.3 million of operating revenues in 2016 and $32.7 million in 2015. To standardize care across the Neonatal Intensive Care Units in central Ohio, the Health System shares other revenue from Nationwide Children's Hospital management of the unit. The Neonatal Intensive Care Units contributed $18.8 million of operating revenues in 2016 and $14.7 million in 2015.

Operating expenses increased $322.0 million, or 16.0% from 2015 to 2016. The increase in salaries and benefits from 2015 to 2016 is reflective of increased salaries and a larger workforce due to the additional volumes related to the new James Cancer Hospital. Increased chemotherapy sessions and strong Retail Pharmacy volumes contributed to the increase in supplies and drugs. The increase in depreciation expense from 2014 to 2016 is primarily due to the first full fiscal year of MCE. The increase in pension expense is related to the decrease in actual returns compared to projected returns of the OPERS pension plans as well as an overall increase in the Health System's proportionate shares of OPERS and STRS liabilities.

The Health System incurred a total of $41.6 million in interest cost in 2016, with the majority paid (or payable) to the University to service debt incurred on behalf of the Health System. The Health System incurred a total of $42.9 million interest cost in both 2015 and 2014, respectively, with the majority paid to the University to service debt incurred on behalf of the Health System. Of these amounts, $28.9 million and $9.4 million were recognized as period expense in each respective year. The remaining interest costs were capitalized.

The Health System's Income before changes in Net Position for fiscal year 2016 totaled $248.6 million compared to $330.1 million in 2015 and $229.1 million in 2014. The decrease in Income before other changes in Net Position from 2015 to 2016 is due to $63.0 million of pension expense related to GASB 68. Income before other changes in Net Position for clinical activities was $312.3 million in 2016 versus $319.8 million in 2015 reflecting strong activities, a strong patient mix and maintaining expenses in line with activities throughout the Health System.

The Health System's other changes in net position for fiscal year 2016 includes Medical Center Investments of $125.3 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $136.9 million in 2015 and $120.5 million in 2014. Additionally, other changes in net position for fiscal year 2016 includes recognition of the final $2.0 million related to HRSA under capital contributions in support of MCE. This compares to $20.9 million in 2015 and $23.3 million in 2014 in recognition of HRSA in support of MCE.

Revenues and operating expenses of **OSU Physicians, Inc.** (OSUP), the University's central practice group for physician faculty members of the College of Medicine and Public Health, continued to grow in 2016. Total consolidated operating revenues increased $81 million, to $487 million, reflecting increases in patient volumes and growth in other operating revenues. Total consolidated OSUP expenses (excluding depreciation and interest) increased $58 million to $441 million in 2016. These figures are included in the Discretely Presented Component Units columns of the university's financial statements.

Total state operating support increased $20 million, to $456 million, in 2016. **State share of instruction** increased $12 million, to $362 million. **State line-item appropriations** were up $8 million.

Total **gifts** to the university increased $4 million, to $232 million in 2016. Increases in capital and endowment gifts were partially offset by a $7 million decrease in current use gifts. During 2016, over 245,000 alumni and friends made gifts to the university, up from 237,000 in 2015.

University investments yielded an $11 million **net investment loss** in 2016. The net investment loss figure includes $94 million of interest and dividend income and an $105 million net decrease in the fair value of university investments.

High volatility in the equity markets continued this year driven by central bank activity, concerns on world growth, oil and gas prices and Brexit. Virtually all endowments experienced negative returns for the year. The investment return for the Long-Term Investment Pool (LTIP) was negative 3.4% for 2016. Real estate was the highest performer for the year with natural resources (oil and gas) being the largest detractor on investment returns.

Currently, the US equity markets are reaching new highs and the US Treasury markets are at historic low yields. The LTIP is a diversified pool of assets that is structured to navigate the uncertainty of today's financial markets.

Prior-Year Highlights: ***In 2015***, the implementation of GASB 68 reduced beginning net position by $2.16 billion. Excluding the effect of the GASB 68 accounting change, total net position for the primary institution increased $419 million, reflecting revenue growth and increases in operating margins for the OSU Health System and $173 million of net investment income. Other university operating revenues and expenses were relatively flat compared with 2014. ***In 2014***, total net position for the primary institution increased $697 million, to $6.64 billion. Net investment income accounted for $621 million of the increase. Consolidated Health System operating revenues grew $102 million, to $2.12 billion in 2014, driven primarily by growth in outpatient revenues and a strong patient mix. Other sources of university operating revenues were flat or showed modest increases compared with 2013.

University Cash Flows Summary (in thousands)

	2016	2015	2014
Net cash flows provided by (used in) operating activities	$ (174,888)	$ (113,426)	$ (355,648)
Net cash flows from noncapital financing activities	752,926	715,137	696,421
Capital appropriations and gifts for capital projects	46,511	53,092	70,877
Proceeds from capital debt	618,242	300,820	-
Payments for purchase or construction of capital assets	(428,966)	(610,776)	(566,746)
Principal and interest payments on capital debt and leases, net of federal Build America Bond interest subsidies	(190,501)	(146,095)	(146,514)
Net cash flows provided by (used in) investing activities	(301,532)	(14,974)	70,687
Net increase (decrease) in cash	$ 321,792	$ 183,778	$ (230,923)

Statement of Cash Flows

University cash and cash equivalents increased $322 million in 2016. Net cash flows from operating and non-capital financing activities were relatively stable, decreasing $24 million to $578 million. Total cash provided by capital financing activities was $45 million, with proceeds from the 2016 bond issues offsetting capital expenditures and payments for debt service. Total cash used by investing activities was $302 million, reflecting net purchases of temporary investments.

Economic Factors That Will Affect the Future

The university has made continued progress in executing its strategic plan to become the world's preeminent public comprehensive university. The university's strategic plan focuses on four core goals:

- **Teaching and Learning:** to provide an unsurpassed, student-centered learning experience led by engaged, world-class faculty and enhanced by a globally diverse student body.
- **Research and Innovation:** to create distinctive and internationally recognized contributions to the advancement of fundamental knowledge and scholarship, and solutions for the world's most pressing problems.
- **Outreach and Engagement:** to establish mutually beneficial partnerships with the citizens and institutions of Ohio, the nation, and the world, so that our communities are actively engaged in the exciting work of The Ohio State University.
- **Resource Stewardship:** to become the model for an affordable public university recognized for financial sustainability, unsurpassed management of human and physical resources, and operational efficiency and effectiveness.

In his March 2015 investiture address, the university's 15th president, Michael V. Drake, MD, set forth his 2020 Vision for the university. The 2020 Vision is focused on three key areas that underpin Ohio State's overarching academic mission:

- **Access, affordability and excellence** – the university must work to reduce student debt and provide access to an excellent and affordable education.
- **Community engagement** – the university must re-commit to its motto of Education for Citizenship, engaging with community partners to extend its scholarship with the full force and precision of one of the most powerful institutions in the world.
- **Diversity and inclusion** – the university must exemplify what it means to be an inclusive university in the 21st century, a place where diversity is a defining characteristic and source of strength.

The university is focused on innovative funding strategies in light of our focus on student affordability and our expectation that traditional government revenue sources will not grow significantly. Both revenue enhancement and expense streamlining are needed to ensure that resources are in place to fund both current needs and our strategic initiatives. The 2020 Vision goal of generating $400 million over five years includes $200 million of administrative efficiencies and $200 million in new revenue from sources other than tuition or taxpayers.

The major themes for the university's 2017 budget are affordability, access and quality as well as safety and security issues for students and systems.

The university has frozen in-state undergraduate tuition and mandatory fees since 2012-13, allowing two classes to graduate without ever experiencing an increase. At the same time, the university will expand the President's Affordability Grants, which supply need-based financial aid for low- and middle-income Ohio undergraduates, to provide $20 million in aid for students in 2017. This grant program was established as part of the 2020 Vision plan to increase need-based student aid by $100 million over five years. In addition, the university continues to add new faculty members in disciplines that support the Discovery Themes (Health and Wellness, Energy and the Environment, and Food Production and Security).

Based on what is now known regarding the university's financial outlook, university management anticipates that Ohio State will maintain its sound financial position in Fiscal Year 2017. However, the university does face certain financial challenges, including limited growth in tuition revenues and the impacts of a new funding model on state support and continued pressure on government expenditures for research. The final state budget as passed contained a freeze on in-state undergraduate instructional fees for all institutions, along with a corresponding increase in the State Share of Instruction (SSI). The SSI pool was increased 4.7% in fiscal 2016 and another 4.0% in fiscal 2017. The new SSI funding model emphasizes degree completion, rewards retention of the best and brightest students in Ohio after graduation and recognizes the additional financial requirements for assisting at-risk students to degree attainment. The university continues to assess the impacts of the funding model change within the context of growth in distance education and other non-traditional programs across the state.

Despite the challenges and uncertainties outlined above, the university remains committed to executing its long-range strategic plan. By doing so, we believe that The Ohio State University will continue its progress towards becoming the world's preeminent comprehensive public university.

Cautionary Note Regarding Forward-Looking Statements

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

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

Statements of NET POSITION

June 30, 2016 and June 30, 2015
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2016	2015	2016	2015	2016	2015
ASSETS AND DEFERRED OUTFLOWS:						
Current Assets:						
Cash and cash equivalents	$ 463,075	$ 568,565	$ 87,001	$ 76,701	$ 550,076	$ 645,266
Temporary investments	1,508,854	1,213,486	7,050	6,891	1,515,904	1,220,377
Accounts receivable, net	512,631	484,798	52,715	49,242	565,346	534,040
Notes receivable – current portion, net	22,798	23,223	2,780	-	25,578	23,223
Pledges receivable – current portion, net	35,322	29,805	-	-	35,322	29,805
Accrued interest receivable	19,295	20,346	-	-	19,295	20,346
Inventories and prepaid expenses	111,388	82,934	3,784	5,636	92,316	88,570
Investments held under securities lending program	27,589	37,806	-	-	27,589	37,806
Amounts due from (to) primary institution	(19,151)	(14,510)	19,151	14,510	-	-
Total Current Assets	2,681,801	2,446,453	172,481	152,980	2,831,426	2,599,433
Noncurrent Assets:						
Restricted cash	802,707	375,425	-	-	802,707	375,425
Notes receivable, net	41,083	45,634	443	1,417	41,526	47,051
Pledges receivable, net	65,546	72,623	-	-	65,546	72,623
Long–term investment pool	3,616,562	3,659,387	-	-	3,616,562	3,659,387
Other long–term investments	132,971	93,367	4,766	736	137,737	94,103
Capital assets, net	4,852,433	4,803,242	117,965	79,911	4,970,398	4,883,153
Total Noncurrent Assets	9,511,302	9,049,678	123,174	82,064	9,634,476	9,131,742
Total Assets	12,193,103	11,496,131	295,655	235,044	12,465,902	11,731,175
Deferred Outflows:						
Pension	675,709	218,985	124	40	675,833	219,025
Other deferred outflows	22,416	8,098	-	-	22,416	8,098
Total Deferred Outflows	698,125	227,083	124	40	698,249	227,123
Total Assets and Deferred Outflows	$ 12,891,228	$ 11,723,214	$ 295,779	$ 235,084	$ 13,164,151	$ 11,958,298
LIABILITIES, DEFERRED INFLOWS AND NET POSITION:						
Current Liabilities:						
Accounts payable and accrued expenses	$ 469,216	$ 447,364	$ 23,116	$ 19,514	$ 492,332	$ 466,878
Deposits and advance payments for goods and services	216,372	261,537	23,327	942	216,843	262,479
Current portion of bonds, notes and leases payable	61,983	59,484	811	816	62,794	60,300
Long–term bonds payable, subject to remarketing	596,435	596,435	-	-	596,435	596,435
Liability under securities lending program	27,589	37,806	-	-	27,589	37,806
Other current liabilities	91,977	68,942	1,980	-	93,957	68,942
Amounts due to (from) primary institution – current	(24,683)	(29,960)	24,683	29,960	-	-
Total Current Liabilities	1,438,889	1,441,608	73,917	51,232	1,489,950	1,492,840
Noncurrent Liabilities:						
Bonds, notes and leases payable	2,714,842	2,186,090	14,735	15,553	2,729,577	2,201,643
Net pension liability	2,794,626	2,130,432	366	296	2,794,992	2,130,728
Compensated absences	159,874	151,884	-	-	159,874	151,884
Self–insurance accruals	94,616	107,874	-	-	94,616	107,874
Amounts due to third–party payors – Health System	42,745	44,168	-	-	42,745	44,168
Obligations under annuity and life income agreements	29,276	26,504	-	-	29,276	26,504
Refundable advances for Federal Perkins loans	32,110	32,228	-	-	32,110	32,228
Other noncurrent liabilities	113,057	84,140	405	724	113,462	84,864
Amounts due to (from) primary institution – noncurrent	(69,970)	(66,416)	69,970	66,416	-	-
Total Noncurrent Liabilities	5,911,176	4,696,904	85,476	82,989	5,996,652	4,779,893
Total Liabilities	7,350,065	6,138,512	159,393	134,221	7,486,602	6,272,733
Deferred Inflows:						
Parking service concession arrangement	445,439	455,070	-	-	445,439	455,070
Pension	122,369	218,635	7	5	122,376	218,640
Other deferred inflows	19,342	19,546	-	-	19,342	19,546
Total Deferred Inflows	587,150	693,251	7	5	587,157	693,256
Net Position:						
Net investment in capital assets	2,282,647	2,340,342	100,068	56,460	2,382,715	2,396,802
Restricted:						
Nonexpendable	1,370,064	1,355,560	-	-	1,370,064	1,355,560
Expendable	908,953	993,000	-	-	908,953	993,000
Unrestricted	392,349	202,549	36,311	44,398	428,660	246,947
Total Net Position	4,954,013	4,891,451	136,379	100,858	5,090,392	4,992,309
Total Liabilities, Deferred Inflows and Net Position	$ 12,891,228	$ 11,723,214	$ 295,779	$ 235,084	$ 13,164,151	$ 11,958,298

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

Statements of REVENUES, EXPENSES, AND OTHER CHANGES IN NET POSITION

For the years ended June 30, 2016 and June 30, 2015 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2016	2015	2016	2015	2016	2015
Operating Revenues:						
Student tuition and fees (net of scholarship allowances of $180,828 and $171,707, respectively)	$ 884,805	$ 850,289	$ -	$ -	$ 884,805	$ 850,289
Federal grants and contracts	313,906	322,266	11,963	8,636	325,869	330,902
State grants and contracts	70,499	88,052	-	-	70,499	88,052
Local grants and contracts	18,701	15,494	-	-	18,701	15,494
Private grants and contracts	227,752	231,426	40,988	40,180	268,740	256,761
Sales and services of educational departments	138,502	137,629	8,757	8,693	147,259	146,322
Sales and services of auxiliary enterprises (net of scholarship allowances of $25,133 and $24,538, respectively)	261,761	261,351	-	-	261,761	261,351
Sales and services of the OSU Health System, net	2,625,075	2,357,824	-	-	2,625,075	2,357,824
Sales and services of OSU Physicians, Inc., net	-	-	487,429	405,619	487,429	405,619
Other operating revenues	35,380	43,903	-	-	35,380	43,903
Total Operating Revenues	4,576,381	4,308,234	549,137	463,128	5,125,518	4,756,517
Operating Expenses:						
Educational and General:						
Instruction and departmental research	994,287	940,105	5,452	5,445	999,739	945,550
Separately budgeted research	444,077	434,624	26,479	20,642	470,556	455,266
Public service	160,281	131,358	9,815	7,917	170,096	134,882
Academic support	207,688	192,140	-	-	207,688	192,140
Student services	103,784	100,229	-	-	103,784	100,229
Institutional support	227,157	230,749	10,118	7,185	237,275	237,934
Operation and maintenance of plant	101,007	95,866	7,454	7,017	108,461	102,883
Scholarships and fellowships	120,962	112,944	-	-	120,962	112,944
Auxiliary enterprises	254,137	248,879	-	-	254,137	248,879
OSU Health System	2,251,030	1,970,124	-	-	2,242,256	1,970,124
OSU Physicians, Inc.	-	-	441,333	383,503	441,333	373,658
Depreciation	351,901	335,881	6,425	6,315	358,326	342,196
Total Operating Expenses	5,216,311	4,792,899	507,076	438,024	5,714,613	5,216,685
Net Operating Income (Loss)	(639,930)	(484,665)	42,061	25,104	(589,095)	(460,168)
Non–operating Revenues (Expenses):						
State share of instruction and line–item appropriations	456,063	435,824	-	-	456,063	435,824
Federal subsidies for Build America Bonds interest	10,523	10,498	-	-	10,523	10,498
Federal non–exchange grants	55,694	57,393	-	-	55,694	57,393
State non–exchange grants	9,643	7,797	-	-	9,643	7,797
Gifts	156,737	163,800	-	-	156,737	163,800
Net investment income (loss)	(10,513)	173,295	(169)	183	(10,376)	173,478
Interest expense on plant debt	(93,885)	(69,758)	(1,610)	(477)	(95,495)	(70,235)
Other non–operating revenues (expenses)	6,890	19,769	(8,550)	(12,899)	(6,951)	7,477
Net Non–operating Revenue	591,152	798,618	(10,329)	(13,193)	575,838	786,032
Income before Other Changes in Net Position	(48,778)	313,953	31,732	11,911	(13,257)	325,864
Other Changes in Net Position:						
State capital appropriations	36,381	40,868	-	-	36,381	40,868
Private capital gifts	10,422	1,688	-	-	10,422	1,688
Additions to permanent endowments	64,537	62,295	-	-	64,537	60,792
Capital contributions and other changes in net position	-	-	3,789	(1,503)	-	-
Total Other Changes in Net Position	111,340	104,851	3,789	(1,503)	111,340	103,348
Increase in Net Position	62,562	418,804	35,521	10,408	98,083	429,212
Net Position - Beginning of Year:						
Beginning of year, as previously reported	4,891,451	6,637,119	100,858	90,712	4,992,309	6,727,831
Cumulative effect of accounting change	-	(2,164,472)	-	(262)	-	(2,164,734)
Beginning of Year, as restated	4,891,451	4,472,647	100,858	90,450	4,992,309	4,563,097
Net Position - End of Year	$ 4,954,013	$ 4,891,451	$ 136,379	$ 100,858	$ 5,090,392	$ 4,992,309

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

Statements of CASH FLOWS

Years Ended June 30, 2016 and June 30, 2015
(in thousands)

	Primary Institution 2016	Primary Institution 2015	Discretely Presented Component Units 2016	Discretely Presented Component Units 2015	Total University 2016	Total University 2015
Cash Flows from Operating Activities:						
Tuition and fee receipts	$ 795,196	$ 755,893	$ -	$ -	$ 795,196	$ 755,893
Grant and contract receipts	632,073	669,744	73,351	49,777	705,424	704,676
Receipts for sales and services	2,975,167	2,707,980	487,945	414,736	3,463,112	3,122,716
Payments to or on behalf of employees	(2,214,578)	(2,073,659)	(306,613)	(266,384)	(2,521,191)	(2,340,043)
University employee benefit payments	(619,964)	(610,685)	(76,190)	(62,704)	(696,154)	(673,389)
Payments to vendors for supplies and services	(1,674,593)	(1,497,779)	(119,918)	(107,200)	(1,785,737)	(1,590,741)
Payments to students and fellows	(112,465)	(103,701)	-	-	(112,465)	(103,701)
Student loans issued	(7,074)	(8,035)	-	-	(7,074)	(8,035)
Student loans collected	10,406	11,924	-	-	10,406	11,924
Student loan interest and fees collected	2,407	3,197	-	-	2,407	3,197
Other receipts	38,537	31,695	-	-	38,537	31,695
Net cash provided (used) by operating activities	(174,888)	(113,426)	58,575	28,225	(107,539)	(85,808)
Cash Flows from Noncapital Financing Activities:						
State share of instruction and line–item appropriations	456,063	435,824	-	-	456,063	435,824
Non–exchange grant receipts	65,337	65,190	-	-	65,337	65,190
Gift receipts for current use	158,991	157,720	-	-	158,991	157,720
Additions to permanent endowments	64,537	62,295	-	-	64,537	60,792
Drawdowns of federal direct loan proceeds	321,661	350,550	-	-	321,661	350,550
Disbursements of federal direct loans to students	(321,146)	(349,197)	-	-	(321,146)	(349,197)
Repayment of loans from related organization	2,193	552	-	-	2,193	552
Amounts received for annuity and life income funds	5,913	1,874	-	-	5,913	1,874
Amounts paid to annuitants and life beneficiaries	(1,632)	(8,992)	-	-	(1,632)	(8,992)
Agency funds receipts	4,626	4,428	-	-	4,626	4,428
Agency funds disbursements	(4,412)	(3,662)	-	-	(4,412)	(3,662)
Other receipts (payments)	795	(1,445)	2,995	(665)	(4,984)	-
Net cash provided (used) by noncapital financing activities	752,926	715,137	2,995	(665)	747,147	715,079
Cash Flows from Capital Financing Activities:						
Proceeds from capital debt	618,242	300,820	-	-	618,242	300,820
State capital appropriations	36,783	43,421	-	-	36,783	43,421
Gift receipts for capital projects	9,728	9,671	-	-	9,728	9,671
Payments for purchase or construction of capital assets	(428,966)	(610,776)	(44,479)	(9,879)	(473,445)	(620,655)
Principal payments on capital debt and leases	(94,308)	(56,857)	(823)	(885)	(95,131)	(57,742)
Interest payments on capital debt and leases	(106,654)	(99,736)	(1,610)	(477)	(108,264)	(100,213)
Federal subsidies for Build America Bonds interest	10,461	10,498	-	-	10,461	10,498
Net cash provided (used) by capital financing activities	45,286	(402,959)	(46,912)	(11,241)	(1,626)	(414,200)
Cash Flows from Investing Activities:						
Net (purchases) sales of temporary investments	(294,511)	(133,795)	(159)	2,072	(294,670)	(131,723)
Proceeds from sales and maturities of long–term investments	1,578,221	817,204	-	-	1,578,221	817,204
Investment income	95,927	123,968	(169)	183	95,758	124,151
Purchases of long–term investments	(1,681,169)	(822,351)	(4,030)	276	(1,685,199)	(822,075)
Net cash provided (used) by investing activities	(301,532)	(14,974)	(4,358)	2,531	(305,890)	(12,443)
Net Increase (Decrease) in Cash	321,792	183,778	10,300	18,850	332,092	202,628
Cash and Cash Equivalents – Beginning of Year	943,990	760,212	76,701	57,851	1,020,691	818,063
Cash and Cash Equivalents – End of Period	$ 1,265,782	$ 943,990	$ 87,001	$ 76,701	$ 1,352,783	$ 1,020,691

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

Statements of CASH FLOWS (continued)

Years Ended June 30, 2016 and June 30, 2015
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2016	2015	2016	2015	2016	2015
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:						
Operating loss (income)	$ (639,930)	$ (484,665)	$ 42,061	$ 25,104	$ (589,095)	$ (460,168)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	351,901	335,881	6,425	6,315	358,326	342,196
Changes in assets and liabilities:						
Accounts receivable, net	(28,621)	(48,569)	(3,473)	(659)	(32,094)	(49,228)
Notes receivable, net	2,783	725	(1,806)	2,317	977	3,042
Accrued interest receivable	(77)	269	-	-	(77)	269
Inventories and prepaid expenses	(28,454)	31,852	1,852	(2,657)	(26,602)	29,195
Amounts due to/from primary institution	14,119	-	(14,119)	-	-	-
Deferred outflows	(456,724)	(68,057)	(84)	-	(456,808)	(68,057)
Accounts payable and accrued liabilities	49,653	53,469	3,603	(1,602)	53,256	51,867
Self-insurance accruals	(13,258)	(2,998)	-	-	(13,258)	(2,998)
Amounts due to third-party payors - Health System	(1,423)	24,389	-	-	(1,423)	24,389
Deposits and advance payments	(26,218)	20,163	22,385	(273)	(3,833)	19,890
Compensated absences	7,990	1,842	-	-	7,990	1,842
Refundable advances for Federal Perkins loans	(118)	571	-	-	(118)	571
Net pension liability	664,194	(184,971)	70	-	664,264	(184,971)
Deferred inflows	(105,897)	209,324	2	(320)	(105,895)	209,004
Other liabilities	35,192	(2,651)	1,659	-	36,851	(2,651)
Net cash provided (used) by operating activities	$ (174,888)	$ (113,426)	$ 58,575	$ 28,225	$ (107,539)	$ (85,808)
Non Cash Transactions:						
Construction in Process in Accounts Payable	$ 30,355	$ 65,988	-	-	$ 30,355	$ 65,988
Stock Gifts	20,746	17,915	-	-	20,746	17,915

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

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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. However, as part of the transition to a larger board membership, the additional trustees appointed in 2005 and 2006 will serve terms ranging from four to eight 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*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

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

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

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

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

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.** – The university appoints a voting majority of the board for this non-profit organization, which participates in the redevelopment of neighborhoods adjacent to the Columbus campus.
- **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 19 and 20. Audited financial statements for 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) exchanged-based good and services that support the operations of the entity, which are presented as operating revenues and expenses at the component unit level.

The net impact of these transactions on the statement of revenues, expenses and other changes in net position was $3,709 and $8,417 for the years ended June 30, 2016 and 2015, respectively.

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

Basis of Accounting

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

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

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation, cash restricted for capital projects and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted - nonexpendable:** Amounts subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the university. These assets primarily consist of the university's permanent endowments.
- **Restricted - expendable:** Amounts whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Amounts which are not subject to externally-imposed stipulations. Substantially all unrestricted balances are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment.

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

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

Cash and Investments

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

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

The university holds investments in limited partnerships, private equity and other investments, which are carried at estimated fair value provided by the management of these limited partnerships. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Investments in these limited partnerships are fair valued based on the university's proportional share of the net asset value of the total fund. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. As of June 30, 2016, the university has made commitments to limited partnerships totaling $751,733 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 more than 5,275 Board authorized funds and 330 pending funds. Each named fund is assigned a number of shares in the Long Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Ohio, permits the university's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems prudent. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long Term Investment Pool, and the associated net position is classified as restricted-expendable, unless otherwise restricted by the donor.

Annual distributions to named funds in the Long Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is 4.25% of the average fair value per share of the Long Term Investment Pool over the most recent seven year period. In 2016, the Board of Trustees approved an increase in the distribution rate to 4.5%, effective fiscal year 2017.

At June 30, 2016, the fair value of the university's gifted endowments is $1,740,505, which is $183,572 above the historical dollar value of $1,556,933. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2016, there are 2,729 named funds that remain underwater. The fair value of these underwater funds at June 30, 2016 is $822,501, which is $99,527 below the historical dollar value of $922,028.

At June 30, 2015, the fair value of the university's gifted endowments was $1,805,143, which was $318,259 above the historical dollar value of $1,486,884. Although the fair value of the gifted endowments in total exceeded the historical cost at June 30, 2015, there were 1,466 named funds that were underwater. The fair value of these underwater funds at June 30, 2015 was $499,341, which was $48,910 below the historical dollar value of $548,251.

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

Gift Pledges Receivable

The university receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Inventories

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

Capital Assets and Collections

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

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

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

Advance Payments for Goods and Services

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

Derivative Instruments and Hedging Activities

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 investments and futures investments are recorded each period in the statement of operations and changes in net position as a component of other non-operating expense.

Operating and Non-Operating Revenues

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

Tuition, Room and Board

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

State Support

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

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

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

Such facilities are reflected as buildings or construction in progress in the accompanying statement of net position. Neither the obligations for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the university's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly. These facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund and future payments to be received by such fund, which is established in the custody of the Treasurer of State.

Government Grants and Contracts

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

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

OSU Health System Revenue

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payers 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 payers 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 Medicare and Medicaid. 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 reimbursement.

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 as administrative adjustments and not reported as net 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, 2016 and 2015 are $36,020 and $12,639, respectively, after applying an additional expense of $12,380 and a reduction of $12,993, 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. The increase in net cost of charity care from 2015 to 2016 is related to the distribution of HCAP dollars received subject to the Omnibus Reconciliation Act (OBRA) cap. Charity care costs for OSUP for the years ended June 30, 2016 and 2015 are $6,022 and $6,743, 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. 68

In fiscal year 2015, the university implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. The university participates in two cost-sharing multiple-employer pension plans – the State Teachers Retirement System of Ohio and the Public Employees Retirement System of Ohio. A proportionate share of the net pension 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. 68 was a $2,164,472 reduction in the university's net position as of July 1, 2014. Additional information regarding net pension liabilities, related deferrals and pension expense is provided in Note 15.

Implementation of GASB Statement No. 72

In fiscal year 2016, the university implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 expands the guidance on valuation of university investments and requires new disclosures of fair value measurements grouped by level and allows Net Asset Value (NAV) to be used for valuation of certain investments. In addition, the new standard requires additional disclosures related to investments valued at NAV, including information on unfunded commitments and a general description of redemption terms and related restrictions. These disclosures are provided in Note 3.

Newly Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements No. 67 and 68). The requirements in Statement No. 73 for reporting pensions generally are the same as in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015 (FY2016)—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

In June 2015, the GASB issued Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statements No. 74 and 75 establish new accounting and reporting standards for other postemployment benefits (OPEB), such as health insurance provided to retirees.

Under the new standards, governments that participate in OPEB plans will be required to report in their statement of net position a net OPEB liability, which is the difference between the total OPEB liability and the assets set aside to pay OPEB. Statement No. 74, which applies to plans (such as OPERS and STRS-Ohio), is effective for periods beginning after June 15, 2016 (FY2017). Statement No. 75, which applies to plan participants (including the university), is effective for periods beginning after June 15, 2017 (FY2018).

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This standard amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The standard is effective for financial statements for fiscal years beginning after December 15, 2015 (FY2017).

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These criteria were formerly based on SEC regulations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (FY2016), except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015 (FY2017). The provisions effective in FY2016 had no impact on university investment reporting.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This standard expands the blending criteria in Statement No. 14 to require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). The standard is effective for financial statements for fiscal years beginning after December 15, 2016 (FY2018).

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

University management has elected to early-implement Statement No. 82 in FY2016 and is currently assessing the impact that implementation of GASB Statements No. 73, 74, 75, 78, 79, 80 and 81 will have on the university's financial statements.

Other

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

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Revision

The financial statements for the year ended June 30, 2015 have been revised to correct for errors relating to a misclassification of certain transactions between the primary institution and aggregate discretely presented component units (primarily related to OSU Physicians) as presented in the statement of revenues, expenses and other changes in net position and the statement of cash flows. Previously reported net position and the change in net position for fiscal year 2015 were not impacted by the misclassification. These errors were not material to prior periods' financial statements. The effect on fiscal year 2015 financial statements is presented below:

Statements of
REVENUES, EXPENSES AND OTHER CHANGES IN NET POSITION

	Primary Institution			Discretely Presented Component Units		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Operating Revenues:						
Private Grants and Contracts	$ 219,540	$ 11,886	$ 231,426	$ 37,221	$ 2,959	$ 40,180
Total Operating Revenues	$ 4,296,348	$ 11,886	$ 4,308,234	$ 460,169	$ 2,959	$ 463,128
Operating Expenses:						
Public service	$ 131,965	$ (607)	$ 131,358	$ 2,917	$ 5,000	$ 7,917
OSUP Physicians, Inc.	-	-	-	$ 373,658	$ 9,845	$ 383,503
Total Operating Expenses	$ 4,793,506	$ (607)	$ 4,792,899	$ 423,179	$ 14,845	$ 438,024
Net Operating Income	$ (497,158)	$ 12,493	$ (484,665)	$ 36,990	$ (11,886)	$ 25,104
Non-operating Revenues (Expenses):						
Other Non-operating Revenues and Expenses	$ 6,352	$ 13,417	$ 19,769	$ 1,125	$ (14,024)	$ (12,899)
Net Non-operating Revenue	$ 785,201	$ 13,417	$ 798,618	$ 831	$ (14,024)	$ (13,193)
Income (Loss) before Other Changes in Net Position	$ 288,043	$ 25,910	$ 313,953	$ 37,821	$ (25,910)	$ 11,911
Other Changes in Net Position:						
Additions to Permanent Endowments	$ 60,792	$ 1,503	$ 62,295	-	-	-
Capital Contributions and Other Changes	-	-	-	$ -	$ (1,503)	$ (1,503)
Transfers	$ 27,413	$ (27,413)	$ -	$ (27,413)	$ 27,413	$ -

Statements of
CASH FLOWS

	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Cash Flows from Operating Activities:						
Grant and Contract Receipts	$ 657,858	$ 11,886	$ 669,744	$ 46,818	$ 2,959	$ 49,777
Payments to vendors for supplies and services	$ (1,498,386)	$ 607	$ (1,497,779)	$ (92,355)	$ (14,845)	$ (107,200)
Net cash in operating activities	$ (125,919)	$ 12,493	$ (113,426)	$ 40,111	$ (11,886)	$ 28,225
Cash Flows from Noncapital Financing Activities:						
Additions to Permanent Endowments	$ 60,792	$ 1,503	$ 62,295	-	-	-
Other receipts	$ 12,551	$ (13,996)	$ (1,445)	$ (12,551)	$ 11,886	$ (665)
Net cash effect of noncapital financing activities	$ 727,630	$ (12,493)	$ 715,137	$ (12,551)	$ 11,886	$ (665)

The above revision had no impact on the Total University column as presented within the financial statements for memorandum purposes only.

Note 20 to the financial statements presents combining information for discretely presented component units and the fiscal year 2015 condensed statement of revenues, expenses and changes in net position and condensed statement of cash flows were also impacted by the above revision, and adjusted amounts are reflected in that footnote.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2016, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $1,265,782 as compared to bank balances of $1,324,013. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $53,280 is covered by federal deposit insurance and $1,270,733 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, 2015, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $943,990 as compared to bank balances of $937,154. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $27,838 is covered by federal deposit insurance and $909,316 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, 2016, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $87,001 as compared to bank balances of $79,794. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,911 is covered by federal deposit insurance and $74,883 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, 2015, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $76,701 as compared to bank balances of $66,246. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $5,427 is covered by federal deposit insurance and $60,819 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 Equites	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, 2016 and 2015 (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, 2016 and 2015 are as follows:

	Primary Institution	
	2016	**2015**
Temporary Investments	$ 1,508,854	$ 1,213,486
Long-Term Investment Pool:		
Gifted Endowment - University	977,173	1,047,985
Gifted Endowment - OSU Foundation	763,332	757,158
Quasi Endowment - Operating	1,203,959	1,164,148
Quasi Endowment - Designated	672,098	690,096
Total Long-Term Investment Pool	3,616,562	3,659,387
Securities Lending Collateral Investments	27,589	37,806
Other Long-Term Investments	132,971	93,367
Total Investments	$ 5,285,976	$ 5,004,046

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Total university investments by investment type for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ -	$ 366,931	$ -	$ -	$ 366,931
International equity	-	112,199	-	-	112,199
Equity mutual funds	81,371	158,936	23,407	-	263,714
U.S. government obligations	167,430	5,094	2,745	-	175,269
U.S. government agency obligations	120,992	-	-	-	120,992
Repurchase agreements	2,200	-	-	-	2,200
Corporate bonds and notes	983,399	-	214	-	983,613
Bond mutual funds	83,697	-	17,801	-	101,498
Foreign government bonds	6,819	-	-	-	6,819
Real assets	10,184	644,415	16,705	-	671,304
Hedge funds	-	1,444,636	-	-	1,444,636
Private equity	-	514,100	56,409		570,509
Commercial paper	40,746	-	-	-	40,746
Cash and cash equivalents	-	370,251	-	-	370,251
Other	12,016	-	15,690	-	27,706
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	7,317	7,317
Variable rate notes	-	-	-	17,774	17,774
Commercial paper	-	-	-	521	521
Certificates of deposit	-	-	-	-	-
Cash and other adjustments	-	-	-	1,977	1,977
Total Investments	$ 1,508,854	$ 3,616,562	$ 132,971	$ 27,589	$ 5,285,976

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Total university investments by investment type for the primary institution at June 30, 2015 are as follows:

	Primary Institution				
	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ 1	$ 319,380	$ -	$ -	$ 319,381
International equity	-	158,999	-	-	158,999
Equity mutual funds	92,463	152,063	24,532	-	269,058
U.S. government obligations	130,087	193,656	1,812	-	325,555
U.S. government agency obligations	89,413	-	-	-	89,413
Repurchase agreements	2,000	-	-	-	2,000
Corporate bonds and notes	767,080	-	231	-	767,311
Bond mutual funds	75,107	-	17,058	-	92,165
Foreign government bonds	16,454	-	-	-	16,454
Real assets	5	627,698	5,561	-	633,264
Hedge funds	-	1,655,086	-	-	1,655,086
Private equity	-	503,491	29,602		533,093
Commercial paper	25,763	-	-	-	25,763
Cash and cash equivalents	-	49,014	-	-	49,014
Other	15,113	-	14,571	-	29,684
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	12,460	12,460
Variable rate notes	-	-	-	15,682	15,682
Commercial paper	-	-	-	5,128	5,128
Certificates of deposit	-	-	-	4,538	4,538
Cash and other adjustments	-	-	-	(2)	(2)
Total Investments	$ 1,213,486	$ 3,659,387	$ 93,367	$ 37,806	$ 5,004,046

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

	Interest and Dividends (net)	Net Increase (Decrease) in Fair Value of Investments	Net Investment Income (Loss)
Temporary Investments	$ 21,667	$ 857	$ 22,524
Long-Term Investment Pool	71,193	(128,618)	(57,425)
Other Long-Term Investments	1,939	22,449	24,388
Total 2016	$ 94,799	$ (105,312)	$ (10,513)
Total 2015	$ 88,758	$ 84,537	$ 173,295

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. Alternative investments with a NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV consist mainly of non-publicly traded mutual funds, hedge funds, private equity, and other alternative funds. These assets are valued by the associated external investment manager/general partner and reviewed by the university using the most recent audited and unaudited financial statements available.

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 $179,177 and $990 at June 30, 2016 and 2015, respectively.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 366,931	$ -	$ -	$ -	$ 366,931
International equity	112,199	-	-	-	112,199
Equity mutual funds	104,779	-	-	158,935	263,714
U.S. government obligations	-	175,269	-	-	175,269
U.S. government agency obligations	-	120,992	-	-	120,992
Repurchase agreements	-	2,200	-	-	2,200
Corporate bonds and notes	-	980,094	3,519	-	983,613
Bond mutual funds	101,498	-	-	-	101,498
Foreign government bonds	-	6,819	-	-	6,819
Real assets	15,182	-	125,357	530,765	671,304
Hedge funds	-	-	-	1,444,636	1,444,636
Private equity	-	-	23,806	546,703	570,509
Commercial paper	-	40,746	-	-	40,746
Cash and cash equivalents	191,074	-	-	-	191,074
Other	-	11,685	16,021	-	27,706
Securities Lending Collateral Assets:					
Repurchase agreements	-	7,317	-	-	7,317
Variable rate notes	-	17,199	575	-	17,774
Commercial paper	-	521	-	-	521
Certificates of deposit	-	-	-	-	-
Other adjustments	-	1,977	-	-	1,977
Total Investments	$ 891,663	$ 1,364,819	$ 169,278	$ 2,681,039	$ 5,106,799
Securities not leveled in investment portfolio:					
Cash	$ 179,177	$ -	$ -	$ -	$ 179,177

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2015 are as follows:

Primary Institution

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 319,381	$ -	$ -	$ -	$ 319,381
International equity	158,999	-	-	-	158,999
Equity mutual funds	116,995	-	-	152,063	269,058
U.S. government obligations	193,656	131,899	-	-	325,555
U.S. government agency obligations	-	89,413	-	-	89,413
Repurchase agreements	-	2,000	-	-	2,000
Corporate bonds and notes	-	767,311	-	-	767,311
Bond mutual funds	91,549	616	-	-	92,165
Foreign government bonds	-	16,454	-	-	16,454
Real assets	5,821	-	109,150	518,293	633,264
Hedge funds	-	-	-	1,655,086	1,655,086
Private equity	-	-	20,138	512,955	533,093
Commercial paper	-	25,434	329	-	25,763
Cash equivalents	48,022	-		-	48,022
Other	-	14,572	15,112	-	29,684
Securities Lending Collateral Assets:					
Repurchase agreements	-	12,460	-	-	12,460
Variable rate notes	-	13,238	2,444	-	15,682
Commercial paper	-	4,799	329	-	5,128
Certificates of deposit	-	4,538	-	-	4,538
Other adjustments	-	-	-	-	-
	$ 934,423	$ 1,082,734	$ 147,502	$ 2,838,397	$ 5,003,056
Securities not leveled in investment portfolio:					
Cash	$ 990	$ -	$ -	$ -	$ 990

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, 2016 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Equity mutual funds – non-public international	$ 158,935	$ -	No limit	1 to 30 days	None
Hedge funds – absolute return, credit, long/short equities	1,444,636	-	No limit	30 to 90 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	546,703	418	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets – natural resources, real estate, infrastructure	530,765	288	1-10 years	Partnerships ineligible for redemption	Not redeemable
	$ 2,681,039	$ 706			

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Additional Risk Disclosures for Investments

Statements No. 3 and 40 of the Governmental Accounting Standards Board 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 alternative investments are illiquid and subject to redemption restrictions in accordance with their respective governing documents. Such governing documents do not provide for the university to exit the alternative investments until the term of the respective alternative investments has ended.

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

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

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2016 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	$ 175,269	$ 18,829	$ 157,613	$ (1,173)	$ -
U.S. government agency obligations	120,992	14,980	62,941	17,088	25,983
Repurchase agreements	2,200	2,200	-	-	-
Commercial paper	40,746	40,746	-	-	-
Corporate bonds	983,613	270,225	634,723	35,072	43,593
Bond mutual funds	101,498	(1,011)	66,138	27,106	9,265
Other governmental bonds	11,685	3,237	7,739	-	709
Foreign governmental bonds	6,819	1,726	5,093	-	-
Securities Lending Collateral:					
Repurchase agreements	7,317	7,317	-	-	-
Certificates of deposit	-	-	-	-	-
Commercial paper	521	521	-	-	-
Variable rate notes	17,774	17,774	-	-	-
Total	$ 1,468,434	$ 376,544	$ 934,247	$ 78,093	$ 79,550

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2015 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	$ 325,555	$ 18,432	$ 224,315	$ 82,808	$ -
U.S. government agency obligations	89,413	1,833	58,609	12,997	15,974
Repurchase agreements	2,000	2,000	-	-	-
Commercial paper	25,763	25,763	-	-	-
Corporate bonds	767,311	205,581	492,879	30,366	38,485
Bond mutual funds	92,165	21,527	33,287	27,499	9,852
Other governmental bonds	14,572	1,531	12,195	-	846
Foreign governmental bonds	16,454	7,096	9,052	306	-
Securities Lending Collateral:					
Repurchase agreements	12,460	12,460	-	-	-
Certificates of deposit	4,538	4,538	-	-	-
Commercial paper	5,128	5,128	-	-	-
Variable rate notes	15,682	15,080	602	-	-
Total	$ 1,371,041	$ 320,969	$ 830,939	$ 153,967	$ 65,157

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

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.

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated
U.S. government and agency obligations	$ 296,261	$ 289	$ 292,392	$ 2,518	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,062
Repurchase agreements	2,200	-	-	-	-	-	-	-	-	-	-	2,200
Corporate bonds	983,613	61,182	211,662	359,356	291,321	22,258	8,313	238	-	-	-	29,283
Bond mutual funds	101,498	62,906	7,385	16,059	12,540	870	281	1	-	1,320	-	136
Foreign governmental bonds	6,819	2,322	2,731	-	1,255	-	-	-	-	-	-	511
Commercial paper	40,746	-	-	-	-	-	-	-	-	-	-	40,746
Other governmental bonds	11,685	-	4,726	5,235	275	-	1,004	-	-	-	-	445
Securities Lending Collateral:												
Repurchase agreements	7,317	-	-	-	-	-	-	-	-	-	-	7,317
Certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-
Commercial paper	521	521	-	-	-	-	-	-	-	-	-	-
Variable rate notes	17,774	2,015	6,029	9,730	-	-	-	-	-	-	-	-
Total	$ 1,468,434	$ 129,235	$524,925	$ 392,898	$ 305,391	$ 23,128	$ 9,598	$ 239	$ -	$ 1,320	$ -	$ 81,700

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2015 are as follows:

Primary Institution

	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated
U.S. government and agency obligations	$ 414,968	$ -	$ 413,772	$ 528	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 668
Repurchase agreements	2,000	-	-	-	-	-	-	-	-	-	-	2,000
Corporate bonds	767,311	83,411	131,000	319,689	182,628	30,932	9,022	-	-	-	-	10,629
Bond mutual funds	92,165	38,037	12,435	21,085	17,972	1,023	220	220	219	219	250	485
Foreign governmental bonds	16,454	2,011	2,228	8,557	3,157	-	-	-	-	-	-	501
Commercial paper	25,763	-	-	-	-	-	-	-	-	-	-	25,763
Other governmental bonds	14,572	-	7,168	4,437	2,967	-	-	-	-	-	-	-
Securities Lending Collateral:												
Repurchase agreements	12,460	-	-	-	-	-	-	-	-	-	-	12,460
Certificates of deposit	4,538	982	-	3,556	-	-	-	-	-	-	-	-
Commercial paper	5,128	763	408	3,957	-	-	-	-	-	-	-	-
Variable rate notes	15,682	358	7,006	8,318	-	-	-	-	-	-	-	-
Total	$ 1,371,041	$ 125,562	$ 574,017	$ 370,127	$ 206,724	$ 31,955	$ 9,242	$ 220	$ 219	$ 219	$ 250	$ 52,506

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)　　2016 Financial Report | The Ohio State University

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, 2016 and June 30, 2015.

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.

At June 30, 2016, exposure to foreign currency risk for the primary institution is as follows:

Primary Institution

	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds and Notes	Foreign Government Bonds	Partnerships and Hedge Funds
Australian dollar	$ 1,005	$ 6,759	$ (60)	$ -	$ -	$ 11,493
Bangladeshi taka	-	605	-			
Brazilian real	315	6,425	298	-	-	-
Canadian dollar	7,474	1,111	6	-	-	-
Chilean peso	-	1,520	-	-	-	-
Chinese yuan	-	342	(280)	-	-	-
Columbian peso	-	628	-	-	-	-
Czech Republic koruna	-	974	-	-	-	-
Danish krone	1,110	251	(3)	-	-	-
Egyptian pound	-	30	-	-	-	-
Euro	35,254	23,712	(456)	1,597	-	80,657
Great Britain pound sterling	22,789	36,297	(293)	190	-	19,414
Hong Kong dollar	5,104	14,562	18	-	-	-
Hungarian forint	-	38	-	-	-	-
Indian rupee	-	3,986	3	-	-	-
Indonesian rupiah	-	323	5	-	-	-
Israeli shekel	-	82	-	-	-	-
Japanese yen	19,823	26,559	(55)	-	-	-
Kuwaiti dinar		443				
Malaysian ringgit	-	1,163	-	-	-	-
Mexican peso	-	1,279	130	-	-	-
New Taiwan dollar	-	4,777	(240)	-	-	-
New Turkish lira	-	1,166	-	-	-	-
New Zealand dollar	-	39	4	-	-	-
Norwegian krone	1,529	1,130	1	-	-	-
Pakistan rupee		1,818				
Peruvian nuevo sol	-	-	-	-	-	-
Philippine peso	-	233	-	-	-	-
Polish zloty	-	559	-	-	-	-
Romanian new leu	-	1,810	-	-		-
Russian ruble	-	-	150	-	-	-
Singapore dollar	-	6,925	(483)	-	-	-
South African rand	-	5,525	3	-	-	-
South Korean won	-	4,324	(13)	-	-	-
Sri Lanka rupee	-	345	-	-	-	-
Swedish krona	1,723	1,315	222	-	-	-
Swiss franc	16,073	6,247	(218)	-	-	7,968
Thailand bhat	-	774	-	-	-	-
UAE dirham	-	107	-	-	-	-
Total	$ 112,199	$ 164,183	$ (1,261)	$ 1,787	$ -	$ 119,532

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

At June 30, 2015, 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
Argentinian Peso	$ -	$ 1	$ -	$ -	$ -	$ -
Australian dollar	428	9,574	(291)	-	-	17,949
Bermudian dollar	-	4	-	-	-	-
Brazilian real	4,649	7,152	(260)	2,911	-	-
Canadian dollar	1,113	3,340	5	-	-	-
Chilean peso	-	1,578	-	-	-	-
Chinese yuan	-	2,877	(18)	-	-	-
Columbian peso	-	57	-	-	-	-
Czech Republic koruna	997	1,337	-	-	-	-
Danish krone	-	6,773	(5)	-	-	-
Egyptian pound	1,728	46	-	-	-	-
Euro	40,738	57,061	(304)	2,566	-	64,973
Great Britain pound sterling	34,153	48,884	43	2,039	-	15,035
Hong Kong dollar	9,661	14,922	15	-	-	-
Hungarian forint	-	6	-	-	-	-
Indian rupee	4,222	2,609	278	-	-	-
Indonesian rupiah	1,059	691	-	-	-	-
Israeli shekel	-	247	-	-	-	-
Japanese yen	18,545	33,586	64	-	-	-
Korean dollar	-	775	-	-	-	-
Macanese pataca	-	6	-	-	-	-
Malaysian ringgit	-	807	8	-	-	-
Mali West African CFA franc	-	4	-	-	-	-
Mexican peso	1,755	1,908	5	-	-	-
New Taiwan dollar	5,290	5,218	(5)	-	-	-
New Turkish lira	1,359	1,428	5	-	-	-
New Zealand dollar	-	87	(197)	-	-	-
Norwegian krone	964	1,614	-	-	-	-
Peruvian nuevo sol	-	12	-	-	-	-
Philippine peso	-	209	-	-	-	-
Polish zloty	-	165	(23)	-	-	-
Qatari rial	-	22	-	-	-	-
Russian ruble	-	435	(3)	-	-	-
Singapore dollar	-	8,357	(140)	-	-	-
South African rand	4,869	4,057	(10)	-	-	-
South Korean won	6,537	1,796	3	-	-	-
Swedish krona	1,272	2,379	8	-	-	-
Swiss franc	15,756	6,949	(8)	-	-	-
Thailand bhat	2,368	914	-	-	-	-
UAE dirham	1,536	658	-	-	-	-
Zambian kwacha	-	4	-	-	-	-
Total	$ 158,999	$ 228,549	$ (830)	$ 7,516	$ -	$ 97,957

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, 2016 were comprised completely of equity, and these loans were secured by collateral in the form of cash, equity, 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 the financial statements' date, 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, 2016, securities loaned by the university amounted to a fair value of $38,166 and were secured by collateral in the amount of $40,139. The portion of this collateral that was received in cash amounted to $27,589 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

As of June 30, 2015, securities loaned by the university amounted to a fair value of $77,302 and were secured by collateral in the amount of $82,564. The portion of this collateral that was received in cash amounted to $37,806 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands) 2016 Financial Report | The Ohio State University

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable for the primary institution at June 30, 2016 and 2015 consist of the following:

	2016	2015
Patient receivables - OSU Health System	$ 1,057,506	$ 1,010,390
Grant and contract receivables	88,725	88,433
Tuition and fees receivable	19,508	23,314
Receivables for departmental and auxiliary sales and services	47,934	51,390
State and federal receivables	7,223	8,140
Other receivables	409	85
Total receivables	1,221,305	1,181,752
Less: Allowances for doubtful accounts	708,674	696,954
Total receivables, net	$ 512,631	$ 484,798

Allowances for doubtful accounts consist primarily of patient 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 $17,500 and $17,130 at June 30, 2016 and 2015, 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 $105,671 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,804 at June 30, 2016. The university recorded $108,039 in non-endowment pledges receivable and a related allowance for doubtful accounts of $5,611 at June 30, 2015.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the primary institution for the year ended June 30, 2016 is summarized as follows:

The decrease in construction in progress of $228,791 in fiscal year 2016 represents the amount of capital expenditures for new projects of $349,456, net of assets placed in service of $578,247.

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 86,915	$ 3,319	$ 4,899	$ 85,335
Intangibles	18,413	-	-	18,413
Construction in progress	332,346	(228,791)	-	103,555
Total non-depreciable assets	437,674	(225,472)	4,899	207,303
Capital assets being depreciated:				
Improvements other than buildings	730,346	81,709	-	812,055
Buildings and fixed equipment	5,607,541	441,277	9,309	6,039,509
Movable equipment, furniture and software	1,300,468	109,169	35,437	1,374,200
Library books	177,753	6,165	529	183,389
Total	7,816,108	638,320	45,275	8,409,153
Less: Accumulated depreciation	3,450,540	351,901	38,418	3,764,023
Total depreciable assets, net	4,365,568	286,419	6,857	4,645,130
Capital assets, net	$ 4,803,242	$ 60,947	$ 11,756	$ 4,852,433

Capital assets activity for the primary institution for the year ended June 30, 2015 is summarized as follows:

The decrease in construction in progress of $879,301 in fiscal year 2015 represents the amount of capital expenditures for new projects of $561,719, net of assets placed in service of $1,441,020.

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 68,926	$ 18,598	$ 609	$ 86,915
Intangibles	18,413	-	-	18,413
Construction in progress	1,211,647	(879,301)	-	332,346
Total non-depreciable assets	1,298,986	(860,703)	609	437,674
Capital assets being depreciated:				
Improvements other than buildings	508,330	222,467	451	730,346
Buildings and fixed equipment	4,592,063	1,025,531	10,053	5,607,541
Movable equipment, furniture and software	1,101,236	258,716	59,484	1,300,468
Library books	171,669	6,609	525	177,753
Total	6,373,298	1,513,323	70,513	7,816,108
Less: Accumulated depreciation	3,179,388	335,881	64,729	3,450,540
Total depreciable assets, net	3,193,910	1,177,442	5,784	4,365,568
Capital assets, net	$ 4,492,896	$ 316,739	$ 6,393	$ 4,803,242

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Capital assets activity for the discretely presented component units for the year ended June 30, 2016 is summarized as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,844	$ 20,881	$ 10,603	$ 21,122
Intangibles	-	-	-	-
Construction in progress	582	24,909	-	25,491
Total non-depreciable assets	11,426	45,790	10,603	46,613
Capital assets being depreciated:				
Improvements other than buildings	8,314	1,625	1,429	8,510
Buildings and fixed equipment	67,551	8,101	3,286	72,366
Movable equipment, furniture and software	48,398	2,662	779	50,281
Library books	-	-	-	-
Total	124,263	12,388	5,494	131,157
Less: Accumulated depreciation	55,778	6,425	2,398	59,805
Total depreciable assets, net	68,485	5,963	3,096	71,352
Capital assets, net	$ 79,911	$ 51,753	$ 13,699	$ 117,965

Capital assets activity for the discretely presented component units for the year ended June 30, 2015 is summarized as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 5,794	$ 5,050	$ -	$ 10,844
Intangibles	-	-	-	-
Construction in progress	15	567	-	582
Total non-depreciable assets	5,809	5,617	-	11,426
Capital assets being depreciated:				
Improvements other than buildings	8,280	34	-	8,314
Buildings and fixed equipment	67,661	-	110	67,551
Movable equipment, furniture and software	44,307	2,572	(1,519)	48,398
Library books	-	-	-	-
Total	120,248	2,606	(1,409)	124,263
Less: Accumulated depreciation	49,711	6,315	248	55,778
Total depreciable assets, net	70,537	(3,709)	(1,657)	68,485
Capital assets, net	$ 76,346	$ 1,908	$ (1,657)	$ 79,911

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses for the primary institution at June 30, 2016 and 2015 consist of the following:

	2016	2015
Payables to vendors for supplies and services	$ 333,524	$ 293,477
Accrued compensation and benefits	90,906	79,097
Retirement system contributions payable	45,118	42,596
Other accrued expenses	(332)	32,194
Total payables and accrued expenses	$ 469,216	$ 447,364

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, 2016 and 2015 consist of the following:

	2016	2015
Current deposits and advance payments:		
Tuition and fees	$ 40,119	$ 51,793
Departmental and auxiliary sales and services	75,686	87,459
Affinity agreements	7,901	12,622
Grants and contracts advances	78,329	93,542
Other deposits and advance payments	14,337	16,121
Total current deposits and advance payments	$ 216,372	$ 261,537
Other non-current deposits and advance payments	$ 79,538	$ 45,202

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, 2015, Oval Limited provides coverage with limits of $75,000 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)
7/1/15 – 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. A portion of the risks written by Oval Limited to date is reinsured by four reinsurance companies. Oval Limited retains 50% of the first $15,000 of risk and cedes the remainder to Berkley Medical Excess Underwriters (rated A+ by A.M. Best). The next $20,000 is fully ceded to Lexington Insurance Company (rated A by A.M. Best). The next $20,000 is fully ceded to Endurance Specialty Insurance Ltd. (rated A by A.M. Best). Above that, Oval Limited cedes the remaining $20,000 of risk to Medical Protective (rated A++ by A.M. Best). The estimated liability and the related contributions to the trustee fund are based upon an independent actuarial determination as of June 30, 2016. OSUP participates in the university self-insurance fund for professional medical malpractice liability claims.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

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, 2016 of the anticipated future payments on gross claims is estimated at its present value of $57,873 discounted at an estimated rate of 3.0% (university funds) and an additional $26,927 discounted at an estimated rate of 3.0% (Oval Limited).

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $179,198 (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, 2016, and the surplus of $94,398 is included in unrestricted net position.

At June 30, 2015, the anticipated future payments on gross claims was estimated at its present value of $69,523 discounted at an estimated rate of 3% (university funds) and an additional $29,055 discounted at an estimated rate of 3% (Oval Limited). The self-insurance fund assets of $183,504 (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, 2015, and the surplus of $84,925 was included in unrestricted net position.

Employee Health Insurance

The university is also self-insured for employee health insurance. As of June 30, 2016 and 2015, $39,096 and $37,375, 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, 2016 and 2015, respectively, $19,127 and $15,308 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, 2014 result from the following activities:

	Malpractice 2016	Malpractice 2015	Health 2016	Health 2015	Workers' Compensation 2016	Workers' Compensation 2015
Liability at beginning of fiscal year	$ 98,578	$ 101,577	$ 37,375	$ 48,507	$ 15,308	$ 12,341
Current year provision for losses	(9,128)	109	343,904	288,281	(5,492)	(3,045)
Claim payments	(4,650)	(3,108)	(342,183)	(299,413)	9,311	6,012
Balance at fiscal year end	$ 84,800	$ 98,578	$ 39,096	$ 37,375	$ 19,127	$ 15,308

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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 may include general receipts bonds, certificates of participation, commercial paper, capital lease obligations and other borrowings.

Debt activity for the primary institution for the year ended June 30, 2016 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,462	$ -	$ 159	$ 2,303	$ 159
OH Air Quality Note Series A	3,839	-	401	3,438	407
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,871	-	69	2,802	73
General Receipts Bonds - Fixed Rate:					
2005A, due serially through 2035	36,040	-	36,040	-	-
2008A, due serially through 2028	124,165	-	13,835	110,330	7,070
2010A, due serially through 2020	146,040	-	28,850	117,190	38,030
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	90,500	-	7,630	82,870	7,890
2012B, due 2033	18,920	-	1,785	17,135	1,800
2014A, due serially through 2044	135,985	-	2,190	133,795	2,235
2016A, due serially through 2111	-	600,000	-	600,000	-
2016B, due serially through 2030	-	30,875	2,330	28,545	2,610
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	51,975	-	-	51,975	51,975
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	91,925	-	-	91,925	91,925
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	150,000	-	-	150,000	150,000
Capital Lease Obligations	6,389	-	1,842	4,547	1,709
	2,743,351	630,875	95,131	3,279,095	658,418
Unamortized Bond Premiums	98,658	4,745	9,238	94,165	-
Total outstanding debt	$ 2,842,009	$ 635,620	$ 104,369	$ 3,373,260	$ 658,418

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Debt activity for the primary institution for the year ended June 30, 2015 is as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,621	$ -	$ 159	$ 2,462	$ 159
OH Air Quality Note Series A	4,234	-	395	3,839	401
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,937	-	66	2,871	69
General Receipts Bonds - Fixed Rate:					
2005A, due serially through 2035	47,400	-	11,360	36,040	2,725
2008A, due serially through 2028	137,410	-	13,245	124,165	13,835
2010A, due serially through 2020	174,660	-	28,620	146,040	28,850
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	90,500	-	-	90,500	7,630
2012B, due 2033	20,760	-	1,840	18,920	1,785
2014A, due serially through 2044	-	135,985	-	135,985	2,190
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	51,975	-	-	51,975	51,975
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	91,925	-	-	91,925	91,925
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	-	150,000	-	150,000	150,000
Capital Lease Obligations	8,446	-	2,057	6,389	1,840
	2,515,108	285,985	57,742	2,743,351	655,919
Unamortized Bond Premiums	90,420	14,835	6,597	98,658	-
Total outstanding debt	$ 2,605,528	$ 300,820	$ 64,339	$ 2,842,009	$ 655,919

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Debt activity for the discretely presented component units for the year ended June 30, 2016 is as follows:

Discretely Presented Component Units	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians - Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 14,228	$ -	$ 569	$ 13,659	$ 811
OSU Physicians - Term Loan Payable, due 2023	2,136	-	249	1,887	-
Capital Lease Obligations	5	-	5	-	-
Total outstanding debt	$ 16,369	$ -	$ 823	$ 15,546	$ 811

Debt activity for the discretely presented component units for the year ended June 30, 2015 is as follows:

Discretely Presented Component Units	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians - Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 14,785	$ -	$ 557	$ 14,228	$ 567
OSU Physicians - Term Loan Payable, due 2023	2,379	-	243	2,136	244
OSU Physicians - Fifth Third Letter of Credit	70	-	70	-	-
Capital Lease Obligations	20	-	15	5	5
Total outstanding debt	$ 17,254	$ -	$ 885	$ 16,369	$ 816

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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

	Principal	Interest	Total
2017	$ 658,418	$ 122,504	$ 780,922
2018	62,366	117,208	179,574
2019	48,181	114,874	163,055
2020	35,144	113,011	148,155
2021	33,651	111,379	145,030
2022-2026	192,388	531,399	723,787
2027-2031	166,430	490,035	656,465
2032-2036	112,621	460,063	572,684
2037-2041	785,746	402,856	1,188,602
2042-2046	84,150	245,427	329,577
2047-2051	350,000	177,247	527,247
2052-2056	-	170,600	170,600
2057-2061	250,000	125,060	375,060
2062-2066	-	120,000	120,000
2067-2071	-	120,000	120,000
2072-2076	-	120,000	120,000
2077-2081	-	120,000	120,000
2082-2086	-	120,000	120,000
2087-2091	-	120,000	120,000
2092-2096	-	120,000	120,000
2097-2101	-	120,000	120,000
2102-2106	-	120,000	120,000
2107-2111	500,000	120,000	620,000
Total	$ 3,279,095	$ 4,381,663	$ 7,660,758

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

Discretely Presented Component Units

	Principal	Interest	Total
2017	$ 811	$ 322	$ 1,133
2018	892	304	1,196
2019	879	285	1,164
2020	898	266	1,164
2021	918	246	1,164
2022-2026	3,957	563	4,520
2027-2031	3,781	151	3,932
2032-2036	3,410	952	4,362
Total	$ 15,546	$ 3,089	$ 18,635

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

The outstanding bond indentures do not require mandatory reserves for future payment of principal and interest. However, the university has set aside $324,998 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, 2016
General Receipts Bonds:		
Series 2008A	$ 18,195	$ 18,195
Series 2010A	13,050	13,050
Series 2010D	3,710	3,710
Total	$ 34,955	$ 34,955

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

Special-Purpose General Receipts Bonds

In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. The bond indenture agreement includes a debt covenant, requiring the university "to set rates, charges and fees in each Fiscal Year so as to cause Special Purpose Pledged Revenues to be in an amount not less than 1.10 times the aggregate debt service for the then-current Fiscal Year on all Special Purpose General Receipts Obligations". At June 30, 2016, the university is in compliance with this covenant. Condensed financial information for the Special Purpose Revenue Facilities is provided in Note 21.

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, 2016 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.545%
1999B1	12%	1.317%
2001	12%	1.097%
2003C	12%	1.449%
2005B	12%	1.005%
2008B	12%	0.268%
2010E	8%	0.099%
2014 B	not specified	0.087%

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 $596,435 and $596,435 at June 30, 2016 and 2015, 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, 2016 are $13,338 and $4,547, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2015 are $15,203 and $6,389, 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, 2016 and 2015 for the primary institution were $105,619 and $100,082, respectively. Of these amounts, interest of $11,734 and $30,324 was capitalized in the years ended June 30, 2016 and 2015. The remaining amounts, $93,885 in fiscal year 2016 and $69,758 in fiscal year 2015, are reported as interest expense in the statement of revenues, expenses and changes in net position.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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 $30,152 and $24,760 for the years ended June 30, 2016 and 2015, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2016 are as follows:

Year Ending June 30,	Primary Institution	Discretely Presented Component Units
2017	$ 44,581	$ 2,601
2018	16,136	1,680
2019	14,633	776
2020	13,339	579
2021	11,044	384
2022-2026	48,432	816
2027-2031	39,178	21
2032-2036	3,009	-
2037-2041	775	-
2042-2046	1,077	-
2047-2051	1,068	-
2052-2056	1,310	-
2057 and beyond	2,725	-
Total minimum lease payments	$ 197,307	$ 6,857

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, 2016 and 2015 (dollars in thousands)

NOTE 12 — OTHER LIABILITIES

Other liability activity for the primary institution for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 166,356	$ 15,794	$ 11,138	$ 171,012	$ 11,138
Self-insurance accruals	151,261	338,595	346,833	143,023	48,407
Amounts due to third party payers	52,811	62,585	44,168	71,228	28,483
Obligations under life income agreements	28,944	7,721	3,440	33,225	3,949
Refundable advances for Federal Perkins loans	32,228	-	118	32,110	-
Other noncurrent liabilities	84,140	28,917	-	113,057	-
Total	$ 515,740	$ 453,612	$ 405,697	$ 563,655	$ 91,977

Other liability activity for the primary institution for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 160,296	$ 20,532	$ 14,472	$ 166,356	$ 14,472
Self-insurance accruals	162,425	291,306	302,470	151,261	43,387
Amounts due to third party payers	19,779	52,862	19,830	52,811	8,643
Obligations under life income agreements	36,062	-	7,118	28,944	2,440
Refundable advances for Federal Perkins loans	31,657	1,142	571	32,228	-
Other noncurrent liabilities	91,168	-	7,028	84,140	-
Total	$ 501,387	$ 365,842	$ 351,489	$ 515,740	$ 68,942

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, 2016 is as follows:

Year Ending June 30,	
2017	$ 5,228
2018	4,056
2019	3,531
2020	3,143
2021	2,512
2022-2026	9,563
2027-2031	3,822
2032-2036	2,832
2037-2041	2,274
2042-2046	207
2047-2051	60
Total minimum future rentals	$ 37,228

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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 Other Changes in Net Position. Operating expenses by object for the primary institution for the years ended June 30, 2016 and 2015 are summarized as follows:

Year Ended June 30, 2016

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 866,910	$ 127,377	$ -	$ -	$ 994,287
Separately budgeted research	296,748	147,329	-	-	444,077
Public service	90,729	69,552	-	-	160,281
Academic support	169,078	38,610	-	-	207,688
Student services	78,115	25,669	-	-	103,784
Institutional support	117,693	109,464	-	-	227,157
Operation and maintenance of plant	32,547	68,460	-	-	101,007
Scholarships and fellowships	6,308	2,189	112,465	-	120,962
Auxiliary enterprises	153,389	100,748	-	-	254,137
OSU Health System	1,231,265	1,019,765	-	-	2,251,030
Depreciation	-	-	-	351,901	351,901
Total operating expenses	$ 3,042,782	$ 1,709,163	$ 112,465	$ 351,901	$ 5,216,311

Year Ended June 30, 2015

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 823,329	$ 116,776	$ -	$ -	$ 940,105
Separately budgeted research	271,924	162,700	-	-	434,624
Public service	80,828	51,137	-	-	131,965
Academic support	148,655	43,485	-	-	192,140
Student services	75,245	24,984	-	-	100,229
Institutional support	130,756	99,993	-	-	230,749
Operation and maintenance of plant	32,789	63,077	-	-	95,866
Scholarships and fellowships	6,341	2,902	103,701	-	112,944
Auxiliary enterprises	142,037	106,842	-	-	248,879
OSU Health System	1,054,966	915,158	-	-	1,970,124
Depreciation	-	-	-	335,881	335,881
Total operating expenses	$ 2,766,870	$ 1,587,054	$ 103,701	$ 335,881	$ 4,793,506

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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 each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

Defined Benefit Plans

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

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

OPERS
Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org/financial/reports.shtml#CAFR

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be 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 9 years).

The collective net pension liabilities of the retirement systems and the university's proportionate share of these net pension liabilities as of June 30, 2016 are as follows:

	STRS Ohio	OPERS	Total
Net pension liability - all employers	$ 27,637,075	$ 17,272,216	
Proportion of the net pension liability - university	4.5%	9.0%	
Proportionate share of net pension liability	$ 1,238,470	$ 1,556,156	$ 2,794,626

The collective net pension liabilities of the retirement systems and the university's proportionate share of these net pension liabilities as of June 30, 2015 are as follows:

	STRS Ohio	OPERS	Total
Net pension liability - all employers	$ 24,323,461	$ 12,022,615	
Proportion of the net pension liability - university	4.4%	8.8%	
Proportionate share of net pension liability	$ 1,070,914	$ 1,059,518	$ 2,130,432

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2016:

	STRS Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 56,459	$ 317	$ 56,776
Net difference between projected and actual earnings on pension plan investments	-	461,637	461,637
Changes in proportion of university contributions	789	1,343	2,132
University contributions subsequent to the measurement date	$ 67,106	$ 88,058	$ 155,164
Total	$ 124,354	$ 551,355	$ 675,709
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 33,260	$ 33,260
Net difference between projected and actual earnings on pension plan investments	89,069	-	89,069
Changes in proportion of university contributions	-	40	40
Total	$ 89,069	$ 33,300	$ 122,369

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2015:

	STRS Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 10,310	$ -	$ 10,310
Net difference between projected and actual earnings on pension plan investments	-	57,206	57,206
University contributions subsequent to the measurement date	66,547	84,922	151,469
Total	$ 76,857	$ 142,128	$ 218,985
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 20,512	$ 20,512
Net difference between projected and actual earnings on pension plan investments	198,123	-	198,123
Total	$ 198,123	$ 20,512	$ 218,635

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

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
2017	$ 47,412	$ 189,460	$ 236,872
2018	(19,694)	108,593	88,899
2019	(19,694)	117,169	97,475
2020	27,260	104,301	131,561
2021	-	(383)	(383)
2022 and Thereafter	-	(1,084)	(1,084)
Total	$ 35,284	$ 518,056	$ 553,340

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

The following table provides additional details on the pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement systems.

	STRS Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145
Benefit Formula	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 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 and five years of service on August 1, 2026.	Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.
Cost-of-Living Adjustments	With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit.	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.
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. Through June 30, 2015, the employer rate was 14% and the member rate was 12% of covered payroll. The statutory employer rate for fiscal 2016 and subsequent years is 14%. The statutory member contribution rate increased to 13% on July 1, 2015 and will increase to 14% on July 1, 2016.	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2015, 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, 2015	December 31, 2015
Actuarial Assumptions	Valuation Date: July 1, 2015 Actuarial Cost Method: Individual entry age Investment Rate of Return: 7.75% Inflation: 2.75% Projected Salary Increases: 2.75% - 12.25% Cost-of-Living Adjustments: 2.00% Simple	Valuation Date: December 31, 2015 Actuarial Cost Method: Individual entry age Investment Rate of Return: 8.00% Inflation: 3.75% Projected Salary Increases: 4.25% - 10.05% Cost-of-Living Adjustments: 3.00% Simple

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

	STRS Ohio	OPERS
Mortality Rates	RP-2000 Combined Mortality Table (Projection 2022–Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no setback for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.	RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.
Date of Last Experience Study	July 1, 2012	December 31, 2010
Investment Return Assumptions	The 10 year expected real rate of return on pension 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:	The long term expected rate of return on defined benefit investment assets was 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 2014 and the long-term expected real rates of return:

STRS Ohio:

Asset Class	Target Allocation	Long Term Expected Return*
Domestic Equity	31.0%	8.00%
International Equity	26.0%	7.85%
Alternatives	14.0%	8.00%
Fixed Income	18.0%	3.75%
Real Estate	10.0%	6.75%
Liquidity Reserves	1.0%	3.00%
Total	100%	

* Returns presented as geometric means

OPERS:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	23.0%	2.31%
Domestic Equity	20.7%	5.84%
Real Estate	10.0%	4.25%
Private Equity	10.0%	9.25%
International Equity	18.3%	7.40%
Other Investments	18.0%	4.59%
Total	100%	

* Returns presented as geometric means

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

	STRS Ohio			OPERS		
Discount Rate	The discount rate used to measure the total pension liability was 7.75% as of June 30, 2015. 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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not 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, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.			The discount rate used to measure the total pension liability was 8.0% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.		
Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
	$ 1,720,329	$ 1,238,470	$ 830,987	$ 2,486,407	$ 1,556,155	$ 771,771

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. Employer contributions at a rate of 9.5% and all employee contributions 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.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Combined Plans

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

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

Summary of Employer Pension Expense

Total pension expense for the year ended June 30, 2016, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

	STRS Ohio	OPERS	ARP	Total
Employer Contributions	$ 66,975	$ 178,293	$ 53,423	$ 298,691
GASB 68 Accruals	11,006	100,197	-	111,203
Total Pension Expense	$ 77,981	$ 278,490	$ 53,423	$ 409,894

Total pension expense for the year ended June 30, 2015, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

	STRS Ohio	OPERS	ARP	Total
Employer Contributions	$ 65,738	$ 170,979	$ 50,598	$ 287,315
GASB 68 Accruals	(15,237)	(19,152)	-	(34,389)
Total Pension Expense	$ 50,501	$ 151,827	$ 50,598	$ 252,926

Pension expense is allocated to institutional functions on the Statement of Revenues, Expenses and Other Changes in Net Position.

Post-Retirement Health Care Benefits

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

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

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (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 $3,949 and $4,397 for the years ended June 30, 2016 and 2015, respectively.

Employee contributions were $1,603 and $1,457 for the years ended June 30, 2016 and 2015.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2016, the university is committed to future contractual obligations for capital expenditures of approximately $188,978.

These projects are funded by the following sources:

State appropriations	$ 33,485
Internal and other sources	155,493
Total	$ 188,978

NOTE 17 — CONTINGENCIES AND RISK MANAGEMENT

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

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

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

NOTE 18 — PARKING LEASE AND CONCESSION AGREEMENT

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

The lump-sum payment under this service concession arrangement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were $445,439 and $455,070 at June 30, 2016 and 2015, respectively. The university reports the parking lots and garages as capital assets with a carrying amount of $124,985 and $124,947 at June 30, 2016 and 2015, respectively.

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 19 – 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, 2016 and 2015 is presented below.

Condensed Combining Information – Year Ended June 30, 2016

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 47,947	$ 6,764	$ 51,449
Capital assets, net	3,518	31	-
Other assets	879,169	648	-
Amounts receivable from the university	-	-	-
Deferred outflows	-	-	-
Total assets and deferred inflows	$ 930,634	$ 7,443	$ 51,449
Current liabilities	$ 3,881	$ 885	$ 50
Noncurrent liabilities	45,442	428	26,927
Amounts payable to the university	1,548	2,081	-
Deferred inflows	-	-	-
Total liabilities and deferred inflows	50,871	3,394	26,977
Net investment in capital assets	3,518	-	-
Restricted:			
Nonexpendable	744,159	-	-
Expendable	121,124	-	-
Unrestricted	10,962	4,049	24,472
Total net position	879,763	4,049	24,472
Total liabilities, deferred inflows and net position	$ 930,634	$ 7,443	$ 51,449

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Grants and contracts	$ -	$ -	$ -
Sales and services of OSU Physicians	-	-	-
Other sales, services and rental income	1,846	12,138	759
Other operating	-	-	-
Total operating revenues	1,846	12,138	759
Operating expenses, excluding depreciation	22,531	11,581	152
Depreciation expense	247	-	-
Total operating expenses	22,778	11,581	152
Net operating income (loss)	(20,932)	557	607
Non-operating revenues and expenses:			
Gifts for current use	156,737	-	-
Net investment income (loss)	(12,441)	-	502
Interest expense	-	-	-
Other non-operating revenue (expense)	-	-	-
Net non-operating revenue (expense)	144,296	-	502
Capital contributions and additions to permanent endowments	75,415	-	-
Transfers from (to) the university	(197,297)	-	-
Change in net position	1,482	557	1,109
Beginning net position	878,281	3,492	23,363
Ending net position	$ 879,763	$ 4,049	$ 24,472
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (19,660)	$ 39	$ 1,198
Noncapital financing activities	29,991	1,332	-
Capital and related financing activities	10,422	104	-
Investing activities	(21,536)	(31)	(12,295)
Net increase (decrease) in cash	(783)	1,444	(11.097)
Beginning cash and cash equivalents	3,276	4,551	12,854
Ending cash and cash equivalents	$ 2,493	$ 5,995	$ 1,757

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2015

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 41,453	$ 5,018	$ 52,462
Capital assets, net	3,766	135	-
Other assets	877,051	617	-
Amounts receivable from the university	-	51	-
Deferred outflows	-	-	-
Total assets and deferred inflows	$ 922,270	$ 5,821	$ 52,462
Current liabilities	$ 17,544	$ 1,060	$ 43
Noncurrent liabilities	26,289	468	29,056
Amounts payable to the university	156	801	-
Deferred inflows	-	-	-
Total liabilities and deferred inflows	43,989	2,329	29,099
Net investment in capital assets	3,766	135	-
Restricted:			
Nonexpendable	714,657	-	-
Expendable	148,447	-	-
Unrestricted	11,411	3,357	23,363
Total net position	878,281	3,492	23,363
Total liabilities, deferred inflows and net position	$ 922,270	$ 5,821	$ 52,462

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Grants and contracts	$ -	$ -	$ -
Sales and services of OSU Physicians	-	-	-
Other sales, services and rental income	1,633	12,524	2,973
Other operating	-	-	-
Total operating revenues	1,633	12,524	2,973
Operating expenses, excluding depreciation	28,315	12,491	159
Depreciation expense	242	-	-
Total operating expenses	28,557	12,491	159
Net operating income (loss)	(26,924)	33	2,814
Non-operating revenues and expenses:			
Gifts for current use	163,800	-	-
Net investment income (loss)	38,487	-	551
Interest expense	-	-	-
Other non-operating revenue (expense)	-	-	-
Net non-operating revenue (expense)	202,287	-	551
Capital contributions and additions to permanent endowments	58,424	-	-
Transfers from (to) the university	(189,684)	-	-
Change in net position	44,103	33	3,365
Beginning net position	834,178	3,459	19,998
Ending net position	$ 878,281	$ 3,492	$ 23,363
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (19,737)	$ 350	$ 1,647
Noncapital financing activities	17,349	402	-
Capital and related financing activities	1,464	344	-
Investing activities	516	(14)	2
Net increase (decrease) in cash	(408)	1,082	1,649
Beginning cash and cash equivalents	3,684	3,469	11,205
Ending cash and cash equivalents	$ 3,276	$ 4,551	$ 12,854

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 20 – 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, 2016 and 2015 is presented below.

Condensed Combining Information – Year Ended June 30, 2016

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 131,333	$ 11,599	$ 9,029	$ 1,369
Capital assets, net	24,297	92,373	1,250	44
Other assets	5,209	-	-	-
Amounts receivable from the university	15,481	-	3,670	-
Deferred outflows	-	-	124	-
Total assets and deferred inflows	$ 176,320	$ 103,972	$ 14,073	$ 1,413
Current liabilities	$ 14,365	$ 31,413	$ 3,441	$ 13
Noncurrent liabilities	15,140	-	366	-
Amounts payable to the university	23,770	70,884	-	-
Deferred inflows	-	-	7	-
Total liabilities and deferred inflows	53,275	102,297	3,814	13
Net investement in capital assets	6,444	92,373	1,251	-
Restricted:				
Nonexpendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	116,601	(90,698)	9,008	1,400
Total net position	123,045	1,675	10,259	1,400
Total liabilities, deferred inflows and net position	$ 176,320	$ 103,972	$ 14,073	$ 1,413

	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	$ -	$ 8,498	$ 44,456	$ -
Sales and services of OSU Physicians	487,429	-	-	-
Other sales, services and rental income	-	-	-	8,758
Other operating	-	-	-	-
Total operating revenues	487,429	8,498	44,456	8,758
Operating expenses, excluding depreciation	441,333	9,816	44,052	5,452
Depreciation expense	4,326	1,821	242	36
Total operating expenses	445,659	11,637	44,294	5,488
Net operating income (loss)	41,770	(3,139)	162	3,270
Non-operating revenues and expenses:				
Gifts for current use	-	-	-	-
Net investment income (loss)	76	(91)	(154)	-
Interest expense	(395)	(1,215)	-	-
Other non-operating revenue (expense)	(9,422)	4,044	-	(3,172)
Net non-operating revenue (expense)	(9,741)	2,738	(154)	(3,172)
Capital contributions and additions to permanent endowments	-	3,789	-	-
Change in net position	32,029	3,388	8	98
Beginning net position, as previously reported	91,016	(1,713)	10,251	1,302
Ending net position	$ 123,045	$ 1,675	$ 10,259	$ 1,400
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 28,792	$ 26,882	$ (374)	$ 3,276
Noncapital financing activities	(9,422)	15,283	306	(3,172)
Capital and related financing activities	(3,703)	(42,232)	(977)	-
Investing activities	(4,079)	(91)	(154)	(34)
Net increase (decrease) in cash	11,588	(158)	(1,199)	70
Beginning cash and cash equivalents	68,107	6,134	2,139	324
Ending cash and cash equivalents	$ 79,695	$ 5,976	$ 940	$ 394

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

As discussed in Note 1, the condensed combining financial information for the year ended June 30, 2015 have been revised to correct for immaterial errors relating to a misclassification of certain transactions between the primary institution and aggregate discretely presented component units as presented in the statement of revenues, expenses and other changes in net position and the statement cash flows.

Condensed Combining Information – Year Ended June 30, 2015

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 118,069	$ 10,140	$ 8,991	$ 1,268
Capital assets, net	26,139	53,177	515	79
Other assets	736	1,417	-	-
Amounts receivable from the university	10,534	-	3,976	-
Deferred outflows	-	-	40	-
Total assets and deferred inflows	$ 155,478	$ 64,734	$ 13,522	$ 1,347
Current liabilities	$ 15,243	$ 3,013	$ 2,970	$ 45
Noncurrent liabilities	16,277	-	296	-
Amounts payable to the university	32,942	63,434	-	-
Deferred inflows	-	-	5	-
Total liabilities and deferred inflows	64,462	66,447	3,271	45
Net investement in capital assets	2,768	53,177	515	-
Restricted:				
Nonexpendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	88,248	(54,890)	9,736	1,302
Total net position	91,016	(1,713)	10,251	1,302
Total liabilities, deferred inflows and net position	$ 155,478	$ 64,734	$ 13,522	$ 1,347

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position				
Operating revenues:				
Grants and contracts	$ -	$ 12,245	$ 36,570	$ -
Sales and services of OSU Physicians	405,620	-	-	-
Other sales, services and rental income	-	-	-	8,693
Other operating	-	-	-	-
Total operating revenues	405,620	12,245	36,570	8,693
Operating expenses, excluding depreciation	383,503	7,918	34,844	5,445
Depreciation expense	4,395	1,641	243	36
Total operating expenses	387,898	9,559	35,087	5,481
Net operating income (loss)	17,722	2,686	1,483	3,212
Non-operating revenues and expenses:				
Gifts for current use	-	-	-	-
Net investment income (loss)	47	-	136	-
Interest expense	(477)	-	-	-
Other non-operating revenue (expense)	(9,110)	(607)	-	(3,182)
Net non-operating revenue (expense)	(9,540)	(607)	136	(3,182)
Capital contributions and additions to permanent endowments	-	-	(1,503)	-
Change in net position	8,182	2,079	116	30
Beginning net position, as previously reported	82,834	(3,792)	10,398	1,272
Cumulative effect of accounting change	-	-	(263)	-
Ending net position	$ 91,016	$ (1,713)	$ 10,251	$ 1,302
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 19,131	$ 5,410	$ 466	$ 3,219
Noncapital financing activities	483	3,591	(1,557)	(3,182)
Capital and related financing activities	(5,372)	(5,540)	(330)	-
Investing activities	2,424	-	136	(26)
Net increase (decrease) in cash	16,666	3,461	(1,285)	11
Beginning cash and cash equivalents	51,441	2,673	3,424	313
Ending cash and cash equivalents	$ 68,107	$ 6,134	$ 2,139	$ 324

Notes to Financial Statements | Years Ended June 30, 2016 and 2015 (dollars in thousands)

NOTE 21 – 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 $172,002 and $168,411 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 is as follows:

	2016	2015
Condensed Statement of Net Position		
Assets and deferred outflows:		
Current assets	$ 24,926	$ 23,979
Capital assets	728,836	617,306
Other assets	35,464	165,038
Amounts receivable from the university	-	-
Deferred outflows	-	-
Total assets and deferred inflows	$ 789,226	$ 806,323
Liabilities and deferred inflows:		
Current liabilities	$ 6,943	$ 5,734
Noncurrent liabilities	-	-
Amounts payable to the university	784,135	800,191
Deferred inflows	-	-
Total liabilities and deferred inflows	791,078	805,925
Net position:		
Net investment in capital assets	(19,835)	(17,847)
Restricted:		
Nonexpendable	-	-
Expendable	-	-
Unrestricted	17,983	18,245
Total net position	(1,852)	398
Total liabilities, deferred inflows and net position	$ 789,226	$ 806,323
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Special-purpose pledged revenues - operating	$ 172,002	$ 168,411
Operating expenses, excluding depreciation	(121,182)	(124,522)
Depreciation expense	(28,110)	(23,205)
Operating income	22,710	20,684
Nonoperating revenues, net	(33,326)	(26,956)
Net income (loss) before transfers	(10,616)	(6,272)
Transfers from (to) other university units, net	8,366	44,221
Increase (decrease) in net assets	(2,250)	37,949
Beginning net position	398	(37,551)
Ending net position	$ (1,852)	$ 398
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 402,744	$ 39,317
Noncapital financing activities	-	-
Capital and related financing activities	(531,575)	(183,948)
Investing activities	95	97
Net increase (decrease) in cash	(128,736)	(144,534)
Beginning cash and cash equivalents	187,978	332,512
Ending cash and cash equivalents	$ 59,242	$ 187,978

Required Supplementary Information on GASB 68 Pension Liabilities | Year Ended June 30, 2016

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

	2016		2015	
(dollars in thousands)	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**
University's proportion of the net pension liability	4.5%	9.0%	4.4%	8.8%
University's proportionate share of the net pension liability	$ 1,238,470	$ 1,556,155	$ 1,070,914	$ 1,059,519
University's covered payroll	$ 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	319%	126%	281%	89%
Plan fiduciary net position as a percentage of the total pension liability	72.1%	81.2%	74.7%	86.5%

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

	2016		2015	
(dollars in thousands)	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**
Contractually required contribution	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contributions in relation to the contractually required contribution	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 392,797	$ 1,260,366	$ 388,309	$ 1,208,710
Contributions as a percentage of covered payroll	17.1%	14.1%	16.9%	14.1%

Other Information on the Long-Term Investment Pool | Year Ended June 30, 2016

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 2016, the market value of the university's Long-Term Investment Pool – which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments – decreased $43 million, to $3.62 billion at June 30, 2016. Long-Term Investment Pool activity for 2016 is summarized below:

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, 2016. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($57 million), University Development related expenses ($16 million) and other investment related expenses ($1 million).

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments– University	Gifted Endowments– Foundation	Quasi-Endowments– Operating	Quasi-Endowments– Designated	Total
Market Value at June 30, 2015	**$ 1,047,985**	**$ 757,158**	**$ 1,164,148**	**$ 690,096**	**$ 3 ,659,387**
Net Principal Additions (Withdrawals)	6,576	63,030	132,551	32,505	234,662
Change in Fair Value	(36,332)	(26,205)	(43,080)	(23,001)	(128,618)
Income Earned	19,646	14,710	23,726	13,111	71,193
Distributions	(40,198)	(30,008)	(48,624)	(26,929)	(145,759)
Expenses	(20,504)	(15,353)	(24,762)	(13,684)	(74,303)
Market Value at June 30, 2016	**$ 977,173**	**$ 763,332**	**$ 1,203,959**	**$ 672,098**	**$ 3,616,562**

Investment Returns and Expenses:

The investment return for the Long-Term Investment Pool was -3.4% for fiscal year 2016. The annualized investment returns for the three-year and five-year periods were 4.7% and 5.0%, 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 $57 million of investment management expenses, which reduced the pool by 1.6% in fiscal year 2016, the $16 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: **controller.osu.edu/acc/endow-home.shtm** (click on the "Endowment Descriptions and Balances" link).

Acknowledgements

The 2016 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller.

Erica N. Armstrong
Natalie H. Darner
Christopher Davis
Thomas F. Ewing
Rachel R. Ford
Robert L. Hupp II
Gary L. Leimbach
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Lisa A. Plaga
Patricia M. Privette
Wei Qu
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