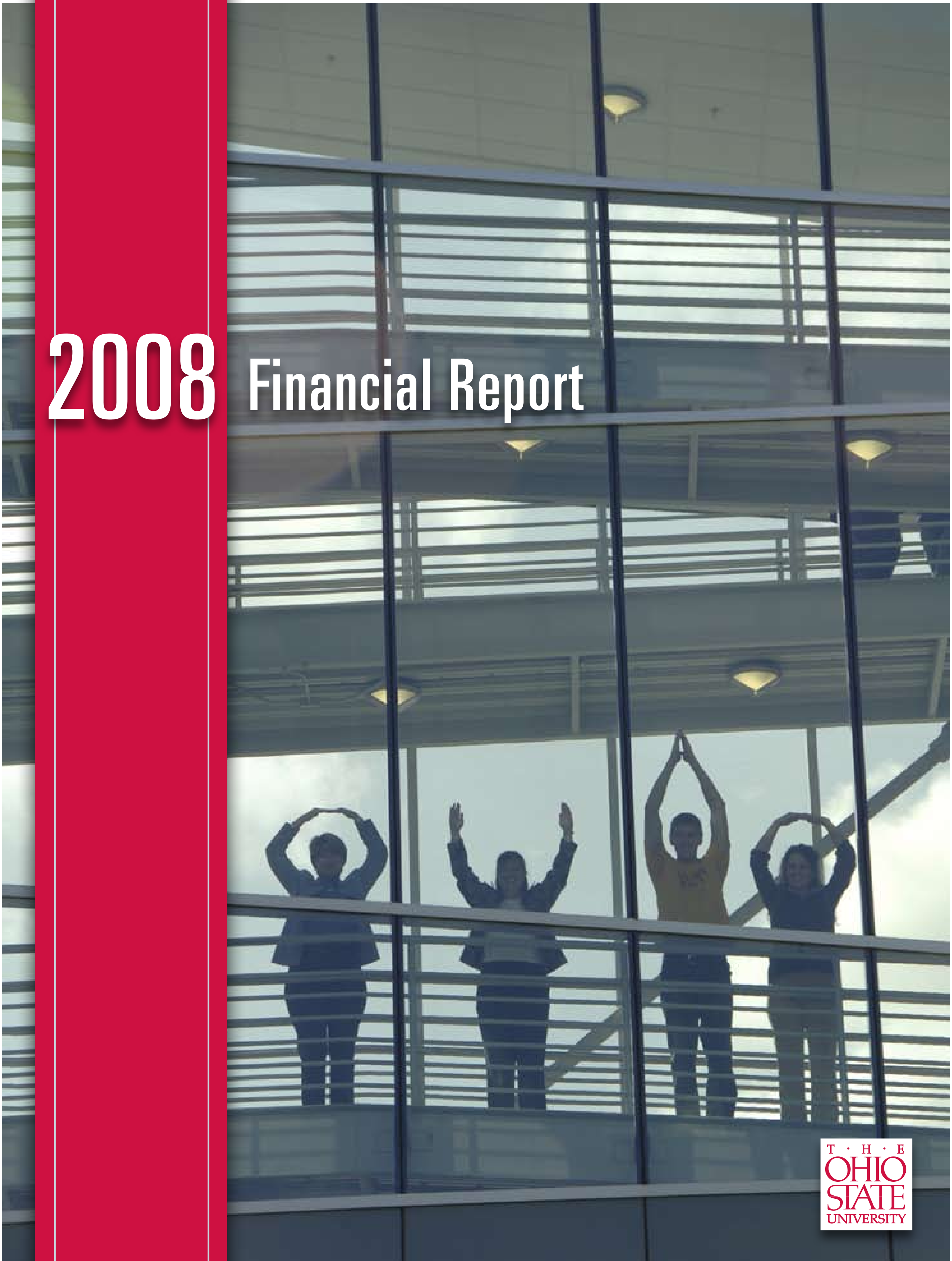
2008 Financial Report



THE OHIO STATE UNIVERSITY

ON THE COVER

It started out as a simple football cheer, something for late 19th Century fans to shout during football games. But these days, "O-H-I-O" means the whole package: strong athletic traditions, major school spirit, and the academic achievements and outreach efforts that make The Ohio State University the great place it is.

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Letter from the Senior Vice President for Business and Finance and the University Controller

We are pleased to present the consolidated financial report for The Ohio State University for the years ended June 30, 2008 and 2007.

The accompanying financial report indicates that the University's financial health remained stable in Fiscal Year 2008, with growth in operating revenues offsetting similar increases in operating expenses. Total expendable net assets increased $53 million, to $1.55 billion at June 30, 2008. Total plant debt, which includes bonds, notes and lease obligations, declined $42 million, to $1.08 billion.

The past several months have been marked by worldwide economic turmoil, with the prospect of a potentially long and deep recession. Ohio State has been impacted in the following areas:

- **State Support –** In September, Governor Strickland directed that most state appropriations be cut by 4.75% to deal with a growing state budget deficit. Fortunately, the Governor protected the State Share of Instruction so that state universities, including Ohio State, could continue the second year of the resident undergraduate tuition freeze. However, other state line-items were cut. The total cost of these reductions to Ohio State campuses was $6.1 million, almost half of which related to agriculture programs.
- **Investments** -- The University's long-term investment pool returned a negative 8.2% in FY2008, with an additional loss of nearly 12% in the first quarter of FY2009.
- **Liquidity** – The University had approximately $57 million of its $850 million short term portfolio invested with Commonfund when the fund was frozen by its trustee, Wachovia Bank, at the end of September. Approximately $17 million of this investment has been returned to date, and most of the remaining balance is expected to be received over the next 12 months. However, because our investment portfolio is diversified, we do not expect that this will have a significant impact on our financial operations.

Although we are operating in a very challenging financial environment, Ohio State possesses significant strengths. Our revenue sources are diverse, the Governor and legislative leaders are seeking to protect the State Share of Instruction, our students continue to have access to student loan funds via the federal direct lending program, the bond rating agencies have recently affirmed our AA2 credit rating, and we have set aside reserves to address economic uncertainty. Ohio State has the assets, the leadership and the determination to improve academically under a variety of circumstances.

We encourage you to read the financial report, and we welcome your interest in this great University. Go Bucks!

Very truly yours,

William J. Shkurti
Senior Vice President
for Business and Finance
and CFO

Greta J. Russell, CPA, CGFM
University Controller

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Independent Auditors' Report

The Board of Trustees
The Ohio State University
Columbus, Ohio

We have audited the accompanying consolidated statements of net assets of The Ohio State University (the "University"), a component unit of the State of Ohio, as of June 30, 2008 and 2007, and the related consolidated statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Ohio State University as of June 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3–13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the University's respective financial statements that collectively comprise the University's basic financial statements. The Supplementary Information on the Long-Term Investment Pool on pages 45–46 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of University's management. The Supplementary Information on the Long-Term Investment Pool has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Deloitte + Touche LLP

October 31, 2008
(January 22, 2009 as to Note 17)

The Ohio State University

Management's Discussion and Analysis

for the Year Ended June 30, 2008

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University for the year ended June 30, 2008, with comparative information for the years ended June 30, 2007 and June 30, 2006. 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 60,000 students, 5,600 faculty members and 20,000 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 167 undergraduate majors, 132 master's degree programs, 100 doctoral programs and seven professional degree programs. The University operates one of the nation's leading academic medical centers, which includes the OSU Health System. The Health System 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, and 20 outpatient care centers. The System provided services to over 57,000 inpatients and nearly 925,000 outpatients during fiscal year 2008.

Ohio State 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 17 colleges, two independent schools, the OSU Health System 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 and net assets (equity) of the University, the OSU Health System, the Ohio Agricultural Research and Development Center and the Ohio Supercomputer Center. In addition, these statements include consolidated financial results for a number of legally separate entities subject to Board control, including:

- the OSU Research Foundation (which administers sponsored research grants and contracts for University)
- the OSU Foundation (a fundraising foundation operating exclusively for the benefit of the University)
- 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 (an automotive research and testing facility in East Liberty, Ohio)
- OSU Managed Health Care Systems (a non-profit organization that administers University health care benefits)
- OSU Physicians, Inc. (the central practice group for physician faculty members of the Colleges of Medicine and Public Health)

The entities listed above meet the "financial accountability" criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. A complete listing of the entities that are included in the University's financial report is provided in the Basis of Presentation section of the footnotes.

About the Financial Statements

The University presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board 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 report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Other Changes in Net Assets, a Statement of Cash Flows and Notes to the Financial Statements.

The **Statement of Net Assets** is the University's balance sheet. It reflects the total assets, liabilities and net assets (equity) of the University as of June 30, 2008, with comparative information as of June 30, 2007. 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 market value. Capital assets, which include the University's land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net assets are grouped in the following categories:

- Invested in capital assets, net of related debt
- Restricted – Nonexpendable (endowment and annuity funds)
- Restricted – Expendable (primarily current restricted and quasi-endowment funds)
- Unrestricted

The **Statement of Revenues, Expenses and Other Changes in Net Assets** is the University's income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2008, with comparative information for Fiscal Year 2007. Tuition revenue is shown net of scholarship allowances, 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 Ohio State 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, 2008, with comparative information for Fiscal Year 2007. 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 assets 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 new section that provides supplementary information on the University's Long-Term Investment Pool.

Financial Highlights and Key Trends

The University's financial health remained stable in 2008, with growth in operating revenues and state support offsetting similar increases in operating expenses. Total unrestricted and restricted-expendable net assets increased $53 million, to $1.55 billion at June 30, 2008. Total University plant debt declined $42 million, to $1.08 billion. A challenging financial environment resulted in a $142 million net loss on University investments.

Student enrollment trends reflect continued strong demand for an Ohio State education, improvement in freshman retention rates and a significant improvement in graduation rates. 60,347 students were enrolled in Autumn 2007, up slightly from Autumn 2006 total enrollment of 59,091. 92.4% of the freshmen enrolled in Autumn 2006 returned to OSU in Autumn 2007, up from 91.5% in the comparable 2005-2006 period. Over the past five years, four-year graduation rates have increased from 31% to 46%, and six-year graduation rates have increased from 59% to 71%.

The following sections provide additional details on the University's 2008 financial results and a look ahead at significant economic conditions that are expected to affect the University in the future.

I. Statement of Net Assets

Total University **cash and temporary investment** balances increased $48 million in 2008, primarily due to net cash flows from investing activities. The Statement of Cash Flows, which is discussed in more detail below, provides additional details on sources and uses of University cash. The University holds the bulk of its working capital in the short and intermediate-term investment funds. These funds are invested in a diversified portfolio of money-market instruments as well as short and intermediate-term fixed income securities. The average maturity of the portfolio is typically less than one year.

The market value of the University's **long-term investment pool** decreased $240 million, to $2.08 billion at June 30, 2008, primarily due to a combination of realized and unrealized losses, which totaled $126 million and $104 million, respectively. 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 equities, fixed income, real estate, hedge funds, private equity, venture capital and natural resources 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.

Other long-term investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation. These investments increased $15 million, to $103 million at

The University's financial health remained stable in 2008, with growth in operating revenues and state support offsetting similar increases in operating expenses.

I. Summary Statements of Net Assets

(in thousands)

	2008	2007	2006
Cash and temporary investments	$ 902,919	$ 855,113	$ 755,036
Current receivables, inventories, and prepaid expenses	539,482	483,998	453,420
Total current assets	1,442,401	1,339,111	1,208,456
Non-current notes and pledges receivable	70,200	74,380	75,662
Long-term investment pool	2,075,853	2,315,591	1,973,020
Other long-term investments	102,801	88,186	82,425
Capital assets, net of accumulated depreciation	2,924,033	2,825,828	2,695,648
Total non-current assets	5,172,887	5,303,985	4,826,755
Total assets	$6,615,288	$6,643,096	$6,035,211
Accounts payable and accrued expenses	$520,806	$470,723	$395,132
Deferred revenues and deposits	184,980	189,129	165,048
Commercial paper and current portion of bonds, notes, and lease obligations	516,970	518,825	487,144
Other current liabilities	10,933	11,905	9,761
Total current liabilities	1,233,689	1,190,582	1,057,085
Non-current portion of bonds, notes, and lease obligations	559,127	599,266	619,083
Other non-current liabilities	196,771	186,430	196,830
Total non-current liabilities	755,898	785,696	815,913
Total liabilities	$1,989,587	$1,976,278	$1,872,998
Invested in capital assets, net of related debt	$1,847,935	$1,711,274	$1,589,420
Restricted – nonexpendable net assets	1,228,922	1,459,705	1,189,475
Restricted – expendable net assets	530,647	531,162	486,095
Unrestricted net assets	1,018,197	964,677	897,223
Total net assets	$4,625,701	$4,666,818	$4,162,213

June 30, 2008, primarily due to the transfer of $23 million of real estate investments from the long-term investment pool.

Capital assets, which include the University's land, buildings, improvements, equipment and library books, grew $98 million, to $2.92 billion at June 30, 2008. The University depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 5 years (for computer equipment) to 100 years (for certain building components such as foundations).

Major projects completed in 2008 include the McCracken Emissions Compliance Project, the Jennings Hall renovation (Botany and Zoology), the Woody Hayes Athletic Center renovation, and the Ohio 4-H Center. In addition, several major construction projects are currently underway or in advanced planning stages, including:


Jennings Hall

- William Oxley Thompson Memorial Library Renovation – Work continues on a $108 million renovation of the University's main library, which will include an addition to the building, new landscaping of the surrounding area and an expansion of the Library Book Depository. The renovation project is scheduled for completion in Autumn 2009.
- Ohio Union Replacement – A new 300,000 square foot student union is being built on the site of the old Ohio Union. The $118 million project is scheduled for completion in 2010.

- Student Academic Services Building – Construction is underway on a new $32.5 million building to house core student services functions in a single location on Lane Avenue. This project also includes construction of a $28 million parking garage adjacent to the new building with 1,400 parking spaces.
- Medical Center Facilities Plan – The University continues to move forward on a master plan to invest up to $1.4 billion in construction and capital improvements to the Medical Center between 2008 and 2016. Current plans call for new inpatient Cancer and Critical Care facilities east of Cannon Drive, new Cancer Ambulatory facilities west of Cannon Drive and related parking and infrastructure improvements.

The University's estimated future capital commitments, based on contracts and purchase orders, total approximately $247 million at June 30, 2008.

Accounts payable and accrued expenses increased $50 million, to $521 million at June 30, 2008. The increase relates primarily to increases in payables to vendors for supplies and services (up $23 million), medical malpractice liabilities (up $13 million) and accrued compensation and benefits (up $8 million).

Total University debt, in the form of **commercial paper, bonds, notes and capital lease obligations**, decreased $42 million, to $1.08 billion at June 30, 2008, with principal payments on existing debt offsetting issuance of commercial paper.

The University's plant debt includes variable rate demand bonds that mature at various dates through 2035. Governmental Accounting Standards Board Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the balance sheet 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 $392 million and $404 million at June 30, 2008 and 2007, respectively.

2006-2007 Highlights

In 2006, total unrestricted and restricted-expendable net assets increased $245 million, to $1.38 billion at June 30, 2006, primarily due to the issuance of long-term bonds (which shifted the negative equity associated with construction activity from unrestricted net assets to capital assets, net of related plant debt). Total University plant debt increased $229 million, to $1.11 billion. ***In 2007***, total unrestricted and restricted-expendable net assets increased $113 million, to $1.50 billion at June 30, 2007. Total University plant debt was stable, increasing $12 million, to $1.12 billion.

II. Summary of Revenues, Expenses, and Other Changes in Net Assets

(in thousands)

	2008	2007	2006
Operating Revenues:			
Tuition and fees, net	$ 616,650	$ 583,580	$ 537,386
Grants and contracts	601,742	560,855	547,277
Auxiliary enterprises sales and services, net	192,071	179,855	170,685
OSU Health System sales and services, net	1,460,868	1,354,702	1,222,974
OSU Physicians sales and services, net	256,910	239,852	215,757
Departmental sales and other operating revenues	159,704	142,504	119,243
Total operating revenues	3,287,945	3,061,348	2,813,322
Operating Expenses:			
Educational and general	1,905,786	1,770,232	1,666,785
Auxiliary enterprises	220,682	204,709	189,656
OSU Health System	1,295,850	1,216,897	1,082,662
OSU Physicians	230,403	226,612	182,169
Depreciation	213,594	193,657	191,991
Total operating expenses	3,866,315	3,612,107	3,313,263
Net operating income (loss)	(578,370)	(550,759)	(499,941)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	469,162	451,964	443,933
Gifts – current use	78,675	76,541	70,293
Net investment income (loss)	(141,558)	429,584	220,313
Grants, interest expense, and other non-operating	(7,725)	(18,804)	(8,043)
Income (loss) before other revenues, expenses, gains, or losses	(179,816)	388,526	226,555
State capital appropriations			
Private capital gifts	72,837	40,928	90,606
Additions to permanent endowments	6,754	28,725	18,548
	59,108	46,426	47,423
Increase (decrease) in net assets			
	(41,117)	504,605	383,132
Net assets – beginning of year			
	4,666,818	4,162,213	3,779,081
Net assets – end of year			
	$4,625,701	$4,666,818	$4,162,213

II. Statement of Revenues, Expenses, and Other Changes in Net Assets

Net **tuition and fees** increased $33 million, to $617 million in 2008. Under the terms of Amended Substitute House Bill 119, the University agreed to freeze undergraduate instructional and general fees for FY2008 and FY2009. Tuition increases for graduate and professional programs ranged from 5% to 10%.

Operating **grant and contract revenues** increased $41 million, to $602 million in 2008, primarily due to increases in departmental (non-research) private grant and contract revenues. Revenues for sponsored research programs administered by the OSU Research Foundation were relatively stable in 2008, with decreases from federal and state sources offsetting increases from private sources. In 2008, the University reclassified certain federal and state grants to non-operating revenue, based on updated guidance from GASB. These revenues totaled $46 million and $38 million in 2008 and 2007, respectively.

Educational and general expenses increased 7.7%, to $1.91 billion in 2008. Additional details are provided in the chart to the right.

Total **instructional and departmental research** expenses increased $56 million in 2008, primarily due to a combination of faculty/staff salary and benefit increases and increases in supplies and services expenses. The University's budget process directs the bulk of annual increases in tuition, state share of instruction and facilities and administrative cost recoveries to the colleges, for investment in academic programs. **Separately budgeted research** increased $28 million, primarily due to increases in consolidated expenses for Prologue Research International, expenditures of research centers administered by the Office of Research, expenditures in the College of Biological Sciences and the effects of elimination entries for capital expenditure activity. Expenditures for sponsored research projects administered by OSURF were relatively stable compared with 2007. **Institutional support** increased $22 million, primarily due to increased expenditures for the Student Information System project and Development Administration and yearend liability accruals.

Educational and General Expenses

(in thousands)

	2008	2007	2006
Instruction and departmental research	$ 817,146	$ 760,923	$ 705,544
Separately budgeted research	391,987	364,170	368,114
Public service	121,565	116,504	120,266
Academic support	135,720	128,932	120,380
Student services	86,829	78,501	75,962
Institutional support	166,172	143,956	115,320
Operation and maintenance of plant	115,107	106,564	95,465
Scholarships and fellowships	71,260	70,682	65,734
Total	$1,905,786	$1,770,232	$1,666,785

Sales and service revenues of the University's **Auxiliary Enterprises** increased $12 million, to $192 million in 2008, primarily due to increases in Housing, Food Service and Event Center (HFSEC) revenues. Auxiliary expenses increased $16 million, reflecting increased expenditures in HFSEC (primarily salaries and wages, food costs and supplies and services) and Athletics (primarily football, women's sports and non-program specific salaries and benefits).

The Ohio State University Health System continued its planned growth during Fiscal Year 2008 with the addition of two floors on the Ross Heart Hospital, expansion of the digestive disease program, development of additional faculty space, and expanding the breadth of outpatient services at the Morehouse Medical Plaza on Kenny Road. The new digestive disease clinical areas opened in July 2007 and the two new floors of the Ross Heart Hospital opened the end of June 2008.

Health System inpatient admissions increased 1.3%, while outpatient volume grew by over 25,000 patients. Consolidated Health System total operating revenues increased $106 million (7.8%) due to volume increases along with selective rate increases. Expenses for the consolidated Health System (excluding depreciation, interest and interfund transfers) increased $79 million (6.5%). Salaries and benefits increased 11.0% due to increased patient activity and a competitive labor market. Supplies increased 6.6% due to volume, medical advances, inflation and more intensive patient care services. The Health System's Excess of Revenue over Expense for 2008 was $116.9 million. After investing $69.4 million in research and education, the change in net assets was $48.4 million.

Looking ahead, the OSU Health System will be challenged by the national trend to meet the increase in demand for health services arising from an aging population and increasing consumer expectations. The Health System expects revenues to increase by 7% with focus on the six signature programs: Cancer, Critical Care, Heart, Imaging, Neuroscience and Transplantation. The Health System will continue to be challenged by the increasing cost for care givers, malpractice costs, supplies, pharmaceuticals and technology.

The Health System continues to invest in the Medical Center's research and teaching initiatives, resulting in the delivery of additional leading edge clinical services while fulfilling its academic mission. In response to the increased demand for services, the Health System continues planning for significant expansion of clinical facilities in the next decade. Despite the challenges and the changing healthcare environment, the Health System expects to improve its financial position during the upcoming year, and will continue to play a key role in supporting the Medical Center and in its status as a leading academic medical center.

Revenues and operating expenses of **OSU Physicians, Inc.**, the University's central practice group for physician faculty members of the Colleges of Medicine and Public Health, continued to grow in 2008. Total operating revenues grew from $240 million to $257 million as a result of volume increases as well as increased rates from contract negotiations. Total OSUP expenses (excluding depreciation, interest and interfund transfers) grew from $227 million to $230 million.

OSUP is the single member of 17 limited liability companies ("LLCs"). As of June 30, 2008, only 15 of the limited liability companies were active. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no 2008 activity.

The table on page 11 lists the LLCs that were included in OSUP's financial statements as of June 30, 2008 and 2007.

Non-endowment gifts to the University (including gifts for current use and gifts to capital projects) decreased $20 million, to $85 million in 2008. New gift **additions to permanent endowments** increased $13 million, to $59 million. University Development estimates that total gift revenues will increase 7% in 2009.

Practice Plan	2008	2007
Family Medicine Foundation, LLC (“FM”)	X	X
OSU Anesthesiology, LLC (“Anesthesiology”)		
OSU Children’s Pediatrics, LLC	X	X
OSU Emergency Medicine, LLC (“EM”)	X	X
OSU Eye Physicians and Surgeons, LLC (“Eye”)	X	X
OSU GYN and OB Consultants, LLC (“OBGYN”)	X	X
OSU Internal Medicine, LLC (“IM”)	X	X
OSU Neuroscience Center, LLC (“Neurology”)	X	X
OSU Orthopedics, LLC (“Orthopedics”)		
OSU Otolaryngology-Head and Neck Surgery, LLC (“Otolaryngology”)	X	X
OSU Pathology, LLC (“Pathology”)	X	X
OSU Physical Medicine and Rehabilitation (“Phys Med”)	X	X
OSU Psychiatry, LLC (“Psychiatry”)	X	X
OSU Radiation Medicine, LLC (“Rad Med”)	X	X
OSU Radiology, LLC (“Radiology”)	X	X
OSU Surgery, LLC (“Surgery”)	X	X
OSU Urology, LLC (“Urology”)	X	X

During 2008, 115,914 donors made gifts to the University, the second highest year on record.

The University’s **net investment income** dropped from $430 million in 2007 to a **net investment loss** of $142 million in 2008. From the macro-economic perspective, as the credit crisis pummeled the financial system, economic data have become steadily worse, raising fears of recession. Amidst the current market turmoil, the University remains deeply committed to the principle that assets be invested prudently in diversified investments that seek growth as well as income. The net investment loss figure includes $96 million of interest and dividend income and $238 million net depreciation in the fair market value of University investments.

2006-2007 Highlights

In 2006, total operating revenues increased $273 million, to $2.81 billion, primary due to growth in tuition, grant and contract and patient care revenues. A strong equity market, particularly for international equities, and a decrease in bond prices resulted in net investment income of $220 million. Total operating expenses increased $294 million, to $3.31 billion, primarily due to increases in educational and general and OSU Health System expenses. ***In 2007***, total operating revenues increased $248 million, to $3.06 billion, primarily due to growth in tuition and patient care revenues. Total operating expenses increased $299 million, to $3.61 billion, primarily due to increases in educational and general and OSU Health System expenses. University investments yielded $430 million of net investment income. Strong returns in the equity markets, led by international equities, accounted for the bulk of the increase.

III. University Cash Flows Summary

(in thousands)

	2008	2007	2006
Net cash flows from operating activities	$(343,577)	$(314,186)	$(263,955)
Net cash flows from non-capital financing activities	649,100	620,629	606,377
Capital appropriations and gifts for capital projects	75,128	76,837	117,169
Proceeds from issuance of bonds and notes payable	10,038	77,598	493,887
Payments for purchase and construction of capital assets	(311,494)	(311,128)	(424,869)
Principal and interest payments on capital debt	(108,915)	(129,389)	(298,961)
Net cash flows from investing activities	84,949	98,504	(112,809)
Net increase (decrease) in cash	$ 55,229	$ 118,865	$ 116,839

III. Statement of Cash Flows

Total University cash and cash equivalents increased $55 million in 2008. Net cash flows from operating activities declined $29 million, with increases in payments for wages, benefits and supplies and services more than offsetting increased receipts for tuition, grants and contracts and sales and services. Total cash provided by noncapital financing activities increased $28 million, reflecting increased receipts for state appropriations and endowment gifts. Although the University issued a small amount of commercial paper in 2008, the lack of a major bond issue, combined with $311 million of capital expenditures, resulted in a $49 million increase in total cash used for capital financing activities. Total cash provided by investing activities was $85 million, reflecting interest and dividend income.

Economic Factors That Will Affect the Future

The Academic Plan, which was adopted in 2000, drives University spending and budgeting priorities. It focuses on six core strategies that are necessary for Ohio State to become a truly great teaching and research university:

- **Build a world-class faculty**
- **Develop academic programs that define Ohio State as the nation's leading land-grant university**
- **Enhance the quality of the teaching and learning environment**
- **Enhance and better serve the student body**
- **Create a diverse University community**
- **Help build Ohio's future**

On October 1, 2007, Gordon Gee returned to Ohio State to serve as the University's 14th president. He set out six strategic goals to advance the objectives of the Academic Plan:

- **Forge *One* Ohio State University**
- **Put Students First**
- **Focus on Faculty Success**
- **Recast Our Research Agenda**
- **Commit to Our Communities**
- **Simplify University Systems and Structures**

The University's FY2009 budget process will fund progress towards these goals.

Under the terms of the state budget bill for the 2008-2009 biennium, the State of Ohio committed to an increase in state funding, and the University committed to a freeze in undergraduate tuition. Worsening economic conditions, in both Ohio and the nation, have required the state to implement budget reductions and spending controls. While many state agencies received significant budget reductions, higher education was, for the most part, held harmless. Funding for the state subsidy payments to colleges and universities has been protected, and the tuition freeze for undergraduate students remains in place. Based on what is now known about FY 2009, University management believes that Ohio State will continue to maintain its sound financial position in the year ahead.

Looking ahead to FY 2010 and beyond, University management sees new opportunities and challenges, as the state implements the University System of Ohio (USO) and a new, yet-to-be-determined distribution methodology. The methodology is expected to shift from one that bases funding on credit hours and levels of expense of the courses taught, to one that rewards quality and performance. Performance measures currently under discussion include enrollment goals, degree attainment, quality measures, research measures and efficiency goals. A focus of the USO will be developing unique and individual missions for each institution of higher education in Ohio. Given Ohio State's unique position of being the "flagship" institution for the state and the importance of its economic impact on the state as a whole, management believes that the University will benefit from the changes anticipated as USO is further defined.

We are committed to building upon current efforts to enhance the University's academic reputation, diversify our revenue base, reduce our operating and capital costs, strengthen internal controls and effectively manage our financial risks. By doing so, we feel The Ohio State University will continue to maintain its sound financial position while continuing its progress towards becoming a top-tier public research university.

Student enrollment trends reflect continued strong demand for an Ohio State education, improvement in freshman retention rates, and a significant improvement in graduation rates.

THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENTS OF NET ASSETS

June 30, 2008 and 2007
(in thousands)

	2008	2007
ASSETS:		
Current Assets:		
Cash and cash equivalents (including bond proceeds restricted for capital expenditures of $37,110 and $67,756, respectively)	$ 386,518	$ 331,289
Temporary investments	516,401	523,824
Accounts receivable, net	423,768	375,611
Notes receivable – current portion, net	11,350	8,521
Pledges receivable – current portion, net	22,359	15,906
Accrued interest receivable	18,896	16,852
Inventories and prepaid expenses	63,109	67,108
Total Current Assets	1,442,401	1,339,111
Non-current Assets:		
Notes receivable, net	60,816	61,043
Pledges receivable, net	9,384	13,337
Long-term investment pool	2,075,853	2,315,591
Other long-term investments	102,801	88,186
Capital assets, net	2,924,033	2,825,828
Total Non-current Assets	5,172,887	5,303,985
Total Assets	**$ 6,615,288**	**$ 6,643,096**
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	$ 520,806	$ 470,723
Deposits and deferred revenues	184,980	189,129
Commercial paper and current portion of bonds, notes, and leases payable	516,970	518,825
Compensated absences – current portion	6,922	6,829
Obligations under annuity and life income agreements – current portion	4,011	5,076
Total Current Liabilities	1,233,689	1,190,582
Non-current Liabilities:		
Bonds, notes, and leases payable	559,127	599,266
Compensated absences	90,117	84,649
Obligations under annuity and life income agreements	44,887	50,327
Refundable advances for Federal Perkins loans	31,086	29,409
Other non-current liabilities	30,681	22,045
Total Non-current Liabilities	755,898	785,696
Total Liabilities	**1,989,587**	1,976,278
Net Assets:		
Invested in capital assets, net of related debt	1,847,935	1,711,274
Restricted:		
Nonexpendable	1,228,922	1,459,705
Expendable	530,647	531,162
Unrestricted	1,018,197	964,677
Total Net Assets	**4,625,701**	4,666,818
Total Liabilities and Net Assets	**$ 6,615,288**	**$ 6,643,096**

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

THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS

Years Ended June 30, 2008 and 2007
(in thousands)

	2008	2007
Operating Revenues:		
Student tuition and fees	$ 616,650	$ 583,580
(net of scholarship allowances of $107,623 and $100,280, respectively)		
Federal grants and contracts	275,361	282,624
State grants and contracts	57,251	50,932
Local grants and contracts	23,864	23,776
Private grants and contracts	245,266	203,523
Sales and services of educational departments	94,499	93,847
Sales and services of auxiliary enterprises	192,071	179,855
(net of scholarship allowances of $13,133 and $12,228, respectively)		
Sales and services of the OSU Health System	1,460,868	1,354,702
(net of charity care of $152,061 and $101,543, respectively)		
Sales and services of OSU Physicians, Inc.	256,910	239,852
(net of charity care of $5,268 and $5,074, respectively)		
Other operating revenues	65,205	48,657
Total Operating Revenues	3,287,945	3,061,348
Operating Expenses:		
Educational and General:		
Instruction and departmental research	817,146	760,923
Separately budgeted research	391,987	364,170
Public service	121,565	116,504
Academic support	135,720	128,932
Student services	86,829	78,501
Institutional support	166,172	143,956
Operation and maintenance of plant	115,107	106,564
Scholarships and fellowships	71,260	70,682
Auxiliary enterprises	220,682	204,709
OSU Health System	1,295,850	1,216,897
OSU Physicians, Inc.	230,403	226,612
Depreciation	213,594	193,657
Total Operating Expenses	3,866,315	3,612,107
Operating Loss	(578,370)	(550,759)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	469,162	451,964
Federal non-exchange grants	31,516	28,532
State non-exchange grants	14,385	9,198
Gifts	78,675	76,541
Net investment income (loss)	(141,558)	429,584
Interest expense on plant debt	(42,437)	(47,038)
Other non-operating revenues (expenses)	(11,189)	(9,496)
Net Non-operating Revenue (Expense)	398,554	939,285
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(179,816)	388,526
State capital appropriations	72,837	40,928
Private capital gifts	6,754	28,725
Additions to permanent endowments	59,108	46,426
Increase (Decrease) in Net Assets	(41,117)	504,605
Net Assets – Beginning of Year	4,666,818	4,162,213
Net Assets – End of Year	$4,625,701	$4,666,818

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007
(in thousands)

	2008	2007
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 504,871	$ 466,451
Grant and contract receipts	605,653	583,672
Receipts for sales and services	1,964,863	1,831,329
Payments to or on behalf of employees	(1,771,998)	(1,649,820)
University employee benefit payments	(464,400)	(389,203)
Payments to vendors for supplies and services	(1,177,180)	(1,145,101)
Payments to students and fellows	(63,814)	(59,064)
Student loans issued	(11,304)	(16,223)
Student loans collected	8,590	13,070
Student loan interest and fees collected	974	1,197
Other receipts (payments)	60,168	49,506
Net cash provided (used) by operating activities	(343,577)	(314,186)
Cash Flows from Non-capital Financing Activities:		
State share of instruction and line-item appropriations	469,162	451,964
Non-exchange grant receipts	45,901	37,730
Gift receipts for current use	76,175	76,656
Additions to permanent endowments	59,108	46,426
Drawdowns of federal direct loan proceeds	308,836	266,492
Disbursements of federal direct loans to students	(307,919)	(266,961)
Repayment of loans to related organization	218	2,518
Amounts received for annuity and life income funds	2,560	10,463
Amounts paid to annuitants and life beneficiaries	(4,545)	(4,533)
Agency funds receipts	5,204	5,004
Agency funds disbursements	(5,600)	(5,130)
Net cash provided (used) by non-capital financing activities	649,100	620,629
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	10,038	77,598
State capital appropriations	68,374	48,112
Gift receipts for capital projects	6,754	28,725
Payments for purchase or construction of capital assets	(311,494)	(311,128)
Principal payments on capital debt and leases	(57,517)	(82,287)
Interest payments on capital debt and leases	(51,398)	(47,102)
Net cash provided (used) by capital financing activities	(335,243)	(286,082)

Continued on next page

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

Continued

	2008	2007
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	2,954	18,788
Proceeds from sales and maturities of long-term investments	2,119,208	1,619,700
Investment income, net of related fees	97,480	97,476
Purchases of long-term investments	(2,134,693)	(1,637,460)
Net cash provided (used) by investing activities	84,949	98,504
Net Increase (Decrease) in Cash	**55,229**	118,865
Cash and Cash Equivalents – Beginning of Year	331,289	212,424
Cash and Cash Equivalents – End of Year	$ 386,518	$ 331,289
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	$ (578,370)	$ (550,759)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:		
Depreciation expense	213,594	193,657
Changes in assets and liabilities:		
Accounts receivable, net	(44,611)	(23,991)
Notes receivable, net	(2,820)	(2,208)
Accrued interest receivable	(525)	(181)
Inventories and prepaid expenses	3,999	(10,716)
Accounts payable and accrued liabilities	52,712	69,638
Deposits and deferred credits	(3,816)	24,171
Compensated absences	5,560	6,425
Refundable advances for federal Perkins loans	1,677	(656)
Other non-current liabilities	9,023	(19,566)
Net cash provided (used) by operating activities	$ (343,577)	$ (314,186)
Non Cash Transactions:		
Equipment	$ 5,097	$ 16,165
Capital lease	(5,097)	(16,165)

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

Notes to Financial Statements

for the Years Ended June 30, 2008 and 2007

All dollar figures stated in these Notes are in thousands.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

The Ohio State 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.

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:

- The Ohio State University and its hospitals and clinics;
- The Ohio State University Foundation, a not-for-profit fundraising organization operating exclusively for the benefit of The Ohio State University;
- Two separate statutory entities for which the University has special responsibility
  - Ohio Agricultural Research and Development Center
  - Ohio Supercomputer Center
- Thirteen legally independent corporations engaged in activities related to the University
  - The Ohio State University Research Foundation
  - The Ohio State University Student Loan Foundation, Inc.
  - Transportation Research Center of Ohio, Inc.
  - Campus Partners for Community Urban Redevelopment, Inc.
  - Reading Recovery and Early Literacy, Inc.
  - Ohio State University Retirees Association
  - OSU Managed Health Care Systems, Inc.
  - The Ohio State University Physicians, Inc.
  - UMC Partners (dissolved in November 2007)
  - Prologue Research International, Inc.
  - Oval Limited
  - Adria Kravinsky Foundation
  - Dental Faculty Practice Association, Inc.

Component units (legally separate organizations for which the University is financially accountable) comprise, in part, the University's reporting entity. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* 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

The legally separate organizations listed above meet the financial accountability criteria set forth in GASB Statement No. 14. In addition, these organizations 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.

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). 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; a Consolidated Statement of Net Assets; a Consolidated Statement of Revenues, Expenses and Other Changes in Net Assets; a Consolidated Statement of Cash Flows; and Notes to the Financial Statements.

The University follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. These balances are maintained in the plant funds in the University's detailed accounting records.

- **Restricted - nonexpendable:** Net assets subject to externally-imposed stipulations that they be maintained in perpetuity by the University. These assets primarily consist of the University's permanent endowment funds.

- **Restricted - expendable:** Net assets 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. These resources include the current restricted funds, student loan funds, certain plant funds, annuity and life income funds, and restricted funds internally designated to function as endowments (restricted quasi-endowments).
- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. These resources include educational and general funds, auxiliary funds, hospitals funds, certain plant funds, and unrestricted quasi-endowments. Substantially all unrestricted net assets 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 net assets 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, and savings accounts and include bond proceeds restricted for capital expenditures.

Investments are carried at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The fair value of private equity investments is based on estimated current values. The weighted average 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 funds. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Methods for determining estimated fair values include discounted cash flows and estimates provided by general partners. 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. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting. As of June 30, 2008, the University has made commitments to limited partnerships totaling $158,158 that have not yet been funded. In the prior fiscal year, the University had made commitments to limited partnerships totaling $134,268 that had not yet been funded as of June 30, 2007.

Investment in real estate is carried at cost, if purchased, or appraised value at the date of the gift. Holdings in real estate investment trusts (REITs) are carried at estimated fair values. The carrying and market values of real estate at June 30, 2008 are $122,907 and $141,308, respectively. The carrying and market values of real estate at June 30, 2007 are $148,452 and $170,964, respectively.

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 4,000 named 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 Management of Institutional Funds Act, 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. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long Term Investment Pool.

Annual distributions to named funds in the Long Term Investment Pool are computed using the share method of accounting for pooled investments. Annual distributions are based on the average market value per share of the Long Term Investment Pool over the past five years multiplied by a stated rate. For funds established prior to June 30, 2004, the stated rate was 4.5% for fiscal years 2007 and 2008. For funds established after June 30, 2004, the stated rate was 4%. To minimize volatility in the year-to-year distribution amounts, actual distributions are subject to a "collar". The collar limits increases in distributions per share to 3% a year, and it limits decreases to 1% a year. Based on this method, undistributed gains were transferred from the Long Term Investment Pool to current funds. These transfers total $91,218 and $89,876 in fiscal years 2008 and 2007, respectively.

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, endowment pledges are not recorded as assets until the related gift is received. It should be noted that, unlike other receivables, gift pledges are generally not considered to be legally enforceable and may be rescinded at any time by the donors.

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 hospitals, 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 and library books. Capital assets are stated at cost or fair 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 and furniture	5 to 15 years
Library books	10 years

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. $5,145 and $11,779 of interest was capitalized in the years ended June 30, 2008 and 2007, respectively. 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.

Deferred Revenues

Deferred revenues primarily consist of receipts relating to tuition, room, board, and athletic events received in advance of the services to be provided. Tuition and fees relating to the summer academic quarter 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.

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 Assets, 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 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 Hospitals 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. 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 balance sheet. 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 Circular A-133 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.

Hospital Revenue

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 hospitals contest 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 hospitals recognize settlements of protested adjustments or appeals upon resolution of the matters.

OSU Physicians Revenue

Net patient service revenue represents amounts received and the estimated net realizable amounts due from patients and third-party payers for services rendered. OSU Physicians 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 consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement.

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.

Newly Issued Accounting Pronouncements

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement explains when pollution remediation-related obligations should be reported and how those obligations' costs and liabilities should be determined. The Statement also requires note disclosures about the liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement establishes standards for the capitalization, amortization and financial reporting of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.* This Statement requires endowments to report their land and other real estate investments at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

University management has not yet determined the impact that implementation of GASB Statements 49, 51, 52 and 53 will have on the University's financial statements.

Other

The University is exempt from income taxes as a non-profit organization under Internal Revenue Code §115 and Internal Revenue Service regulations. Any unrelated business income is taxable.

Certain reclassifications have been made to the 2007 comparative information to conform with the 2008 presentation, including $37,730 of 2007 federal and state grant revenues, which were reclassified from operating to non-operating revenue based on updated guidance from GASB.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2008, the carrying amount of the University's cash and cash equivalents for all funds is $386,518 as compared to bank balances of $484,107. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,605 is covered by federal deposit insurance and $479,502 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 funds available for current operating expenses and capital projects. Under the University's investment policies, Temporary Investment funds may be invested in the following instruments:

- Obligations of the U.S. Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds

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 operating funds which have been internally designated to function as endowments (referred to below as the Operating Endowment). The Long-Term Investment Pool operates with a long-term investment goal of preserving the purchasing power of the principal in a diversified portfolio. The following table summarizes the University's target asset allocation and associated benchmarks for the Long-Term Investment Pool:

Asset Class	Target	Benchmark
U.S. Equities	20%	Russell 3000
International Equity	20%	ACWI excluding U.S.
Fixed Income	10%	Lehman Aggregate (70%) / Citigroup WBGI excluding U.S. (30%)
Absolute Return/Hedge	25%	90 Day T-Bill + 4%
Real Assets	10%	CPI +5%
Private Equity	20%	Venture Economics
Cash	-5%	90 Day T-Bill

Mutual funds held by the University include a wide range of investments, including hedge funds. These hedge funds may include, but are not limited to, investments in equity securities, mutual funds, limited and general partnerships, foreign securities, short sales positions, distressed securities, fixed income securities, options, currencies, commodities, futures and derivatives. The University's objective for investing in these hedge funds is to provide stable, absolute returns that are uncorrelated to fluctuations in the stock and bond markets.

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, 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 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, money market instruments, mutual funds and other investments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at the Depository Trust Company, JPMorgan Chase or State Street in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

Total University investments by major category at June 30, 2008 and 2007 are as follows:

	2008	2007
Temporary Investments	$ 516,401	$ 523,824
Long-Term Investment Pool:		
Gifted Endowment—University	1,009,335	1,122,550
Gifted Endowment—OSU Foundation	442,853	438,362
Operating Endowment:		
Operating Funds Long-Term Component	598,000	592,242
President's Strategic Initiative Fund	21,011	159,170
Maintenance and Renewal Fund	4,654	3,267
Total Long-Term Investment Pool	2,075,853	2,315,591
Other Long-Term Investments	102,801	88,186
Total Investments	$ 2,695,055	$ 2,927,601

Total University investments by investment type at June 30, 2008 are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 1	$ 361,014	$ 334	$ 361,349
Equity mutual funds	48,505	767,944	25,962	842,411
U.S. government obligations	29,774	21,810	4,929	56,513
U.S. government agency obligations	141,322	37,520	-	178,842
Repurchase agreements	118,359	-	-	118,359
Corporate bonds and notes	38,242	25,596	274	64,112
Bond mutual funds	128,012	110,362	24,633	263,007
International bonds	7	-	-	7
Real estate	146	98,445	24,316	122,907
Partnerships and hedge funds	-	603,742	-	603,742
Cash and cash equivalents	-	49,420	-	49,420
Other	12,033	-	22,353	34,386
Total	$ 516,401	$ 2,075,853	$ 102,801	$ 2,695,055

Total University investments by investment type at June 30, 2007 are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 42	$ 761,068	$ 287	$ 761,397
Equity mutual funds	49,102	694,262	37,360	780,724
U.S. government obligations	18,501	40,424	4,196	63,121
U.S. government agency obligations	39,968	57,313	-	97,281
Repurchase agreements	155,245	-	-	155,245
Corporate bonds and notes	16,458	86,620	267	103,345
Bond mutual funds	230,470	96,477	22,593	349,540
International bonds	16	17,123	-	17,139
Real estate	5	147,343	1,104	148,452
Partnerships and hedge funds	-	353,358	-	353,358
Cash and cash equivalents	-	61,603	-	61,603
Other	14,017	-	22,379	36,396
Total	$ 523,824	$ 2,315,591	$ 88,186	$ 2,927,601

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2008, the University realized a net loss of $126,301 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net depreciation in the fair value of investments during the year ended June 30, 2008, was $237,556. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized depreciation during the year on investments was $111,255.

The components of the net investment income (loss) are as follows:

	Interest and Dividends (net)	Net Appreciation (Depreciation) in Market Value of Investments	Net Investment Income (Loss)
Temporary Investments	$ 27,763	$ (4,468)	$23,295
Long-Term Investment Pool	61,423	(229,848)	(168,425)
Other Long-Term Investments	6,812	(3,240)	3,572
Total 2008	$ 95,998	$ (237,556)	$ (141,558)
Total 2007	$ 99,012	$ 330,572	$ 429,584

Additional Risk Disclosures for Investments

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the interest-rate, credit and foreign currency risks associated with deposits and investments.

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

The maturities of the University's interest-bearing investments at June 30, 2008 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 56,513	$ 2,326	$ 35,790	$ 15,451	$ 2,946
U.S. agency obligations	178,842	14,675	91,544	35,447	37,176
Repurchase agreements	118,359	118,359	-	-	-
Corporate bonds	64,112	2,995	41,255	11,886	7,976
Bond mutual funds	263,007	48,429	112,994	73,162	28,422
International bonds	7	-	7	-	-
Total	$ 680,840	$ 186,784	$ 281,590	$ 135,946	$ 76,520

The maturities of the University's interest-bearing investments at June 30, 2007 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 63,121	$ 2,266	$ 17,671	$ 33,626	$ 9,558
U.S. agency obligations	97,281	12,253	39,685	12,122	33,221
Repurchase agreements	155,245	155,245	-	-	-
Corporate bonds	103,345	6,635	32,163	37,160	27,387
Bond mutual funds	349,540	105,879	152,736	68,139	22,786
International bonds	17,139	-	2,941	3,105	11,093
Total	$ 785,671	$ 282,278	$ 245,196	$ 154,152	$ 104,045

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

The credit ratings of the University's interest-bearing investments at June 30, 2008 are as follows:

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	International Bonds
AAA	$ 575,822	$ 234,942	$ 118,359	$ 21,233	$ 201,288	-
AA	38,356	-	-	10,110	28,246	-
A	43,035	-	-	21,036	21,999	-
BBB	16,448	-	-	6,748	9,700	-
BB	729	-	-	699	30	-
B	2,431	-	-	2,431	-	-
CCC	569	-	-	569	-	-
CC	81	-	-	81	-	-
C	-	-	-	-	-	-
Not Rated	3,369	413	-	1,205	1,744	$ 7
Total	$ 680,840	$ 235,355	$ 118,359	$ 64,112	$ 263,007	$ 7

The credit ratings of the University's interest-bearing investments at June 30, 2007 are as follows:

Credit Rating (Moody's)	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	International Bonds
Aaa	$ 555,115	$ 159,323	$ 155,245	$ 19,361	$ 221,186	-
Aa	38,272	710	-	9,246	28,096	$ 220
A	71,340	-	-	19,031	52,309	-
Baa	25,909	-	-	16,740	8,076	1,093
Ba	26,719	-	-	4,770	14,505	7,444
B	39,536	-	-	19,605	18,966	965
Caa	12,782	-	-	7,210	5,572	-
Ca	-	-	-	-	-	-
C	-	-	-	-	-	-
Not Rated	15,998	369	-	7,382	830	7,417
Total	$ 785,671	$ 160,402	$ 155,245	$ 103,345	$ 349,540	$ 17,139

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, 2008, the University's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	International Bonds
Argentine peso	-	$ 425	-	-	-
Australian dollar	$ 4,346	19,695	$ 133	-	-
Brazilian real	6,610	10,349	-	-	-
Canadian dollar	9,059	29,081	670	-	-
Chilean peso	-	764	-	-	-
Chinese yuan	-	8,333	-	-	-
Czech Republic koruna	-	545	-	-	-
Danish krone	1,590	3,139	471	-	-
Egyptian pound	-	512	-	-	-
Euro	62,775	149,080	15,495	-	-
Great Britain pound sterling	26,363	16,484	2,177	-	-
Hong Kong dollar	10,190	6,477	-	-	-
Hungarian forint	461	522	-	-	-
Indian rupee	-	3,414	-	-	-
Indonesian rupiah	980	970	-	-	-
Israeli shekel	179	1,518	-	-	-
Japanese yen	38,687	62,445	10,741	-	-
Jordanian dinar	-	59	-	-	-
Malaysian ringgit	1,199	1,377	-	-	-
Mexican peso	2,899	2,997	-	-	-
Moroccan dirham	-	207	-	-	-
New Taiwan dollar	5,330	6,463	-	-	-
New Zealand dollar	291	448	-	-	-
Norwegian kroner	6,674	3,331	75	-	-
Peruvian nuevo sol	-	453	-	-	-
Phillippine peso	-	188	-	-	-
Polish zloty	377	976	-	-	-
Russian ruble	-	6,735	-	-	-
Singapore dollar	1,717	3,384	-	-	-
South African rand	7,030	3,934	-	-	-
South Korean won	11,259	7,582	-	-	-
Swedish krona	3,842	6,293	188	-	-
Swiss franc	5,439	20,463	179	-	-
Thailand bhat	2,345	822	-	-	-
Turkish lira	396	763	-	-	-
Other currencies	-	91	-	-	-
Total	$ 210,038	$ 380,319	$ 30,129	-	-

At June 30, 2007, the University's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	International Bonds
Argentine peso	-	$ 19,012	-	-	$ 1,914
Australian dollar	$ 4,336	4,790	$ 2,643	-	-
Brazilian real	4,694	9,118	992	-	-
Canadian dollar	7,883	28,629	1,669	-	-
Chinese yuan	-	8,088	-	-	-
Danish krone	468	935	294	-	-
Egyptian pound	326	773	-	-	-
Euro	57,250	134,297	13,646	-	-
Great Britain pound sterling	25,653	81,853	1,956	-	-
Hong Kong dollar	8,040	5,700	-	-	-
Hungarian forint	-	1,289	-	-	-
Indian rupee	-	1,529	-	-	-
Indonesian rupiah	993	1,819	652	-	-
Israeli shekel	542	523	-	-	-
Japanese yen	36,012	78,360	12,704	-	-
Malaysian ringgit	4,508	972	996	-	-
Mexican peso	1,088	4,805	942	$ 392	489
New Taiwan dollar	3,567	5,720	-	-	-
New Zealand dollar	152	849	850	-	-
Norwegian kroner	7,596	5,685	-	-	-
Peruvian nuevo sol	-	1,059	-	-	-
Phillippine peso	597	1,019	-	-	-
Polish zloty	440	1,163	1,577	-	-
Russian ruble	-	5,665	-	-	-
Singapore dollar	2,272	2,954	1,462	-	-
South African rand	8,357	4,915	1,024	-	-
South Korean won	9,152	8,220	-	-	-
Swedish krona	4,101	11,432	610	-	-
Swiss franc	4,112	23,433	202	-	-
Thailand bhat	1,307	1,127	-	-	-
Turkish lira	-	1,831	-	-	970
Other currencies	-	1,041	4	-	197
Total	$ 193,446	$ 458,605	$ 42,223	$ 392	$ 3,570

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2008 and 2007 consist of the following:

	2008	2007
Patient receivables – OSU Health System	$ 698,479	$ 631,962
Patient receivables – OSU Physicians, Inc.	83,909	69,375
Grant and contract receivables	79,491	77,594
Tuition and fees receivable	38,360	33,627
Receivables for departmental and auxiliary sales and services	69,992	57,756
State and federal receivables	6,638	3,092
	976,869	873,406
Less: Allowances for doubtful accounts	553,101	497,795
	$ 423,768	$ 375,611

Notes receivable consist primarily of Perkins Loans and are net of an allowance for doubtful accounts of $16,700 at June 30, 2008 and $15,650 at June 30, 2007. 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 $42,076 in non-endowment pledges receivable at June 30, 2008 and a related allowance for doubtful accounts of $10,333. The University recorded $41,583 in non-endowment pledges receivable and a related allowance for doubtful accounts of $12,340 at June 30, 2007.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 52,053	$ 3,650	$ 6,826	$ 48,877
Improvements other than buildings	257,017	18,863	6,078	269,802
Buildings and fixed equipment	3,247,839	204,841	4,258	3,448,422
Movable equipment and furniture	820,968	90,933	66,616	845,285
Library books	163,767	3,666	2,890	164,543
Construction in progress	281,575	12,054	-	293,629
	4,823,219	334,007	86,668	5,070,558
Less: Accumulated depreciation	1,997,391	213,594	64,460	2,146,525
Capital assets, net	$ 2,825,828	$ 120,413	$ 22,208	$ 2,924,033

Capital assets activity for the year ended June 30, 2007 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 52,543	$ 211	$ 701	$ 52,053
Improvements other than buildings	241,209	15,808	-	257,017
Buildings and fixed equipment	2,877,674	391,445	21,280	3,247,839
Movable equipment and furniture	806,761	81,517	67,310	820,968
Library books	162,924	3,472	2,629	163,767
Construction in progress	433,357	(151,782)	-	281,575
	4,574,468	340,671	91,920	4,823,219
Less: Accumulated depreciation	1,878,820	193,657	75,086	1,997,391
Capital assets, net	$ 2,695,648	$ 147,014	$ 16,834	$ 2,825,828

In the above tables, additions to construction in progress represent expenditures for new projects, net of the amount of capital assets placed in service.

NOTE 6 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2008 and 2007 consist of the following:

	2008	2007
Payables to vendors for supplies and services	$ 173,404	$ 150,603
Accrued compensation and benefits	113,256	105,047
Retirement system contributions payable	58,742	63,503
Self-insurance accruals:		
Medical malpractice	116,776	103,447
Employee health insurance	22,318	17,216
Current portion of amounts due to third-party payers – OSU Health System	15,499	16,987
Other accrued expenses	20,811	13,920
	$ 520,806	$ 470,723

Self-Insurance Programs

The Hospitals have established trusteed self-insurance funds for professional medical malpractice liability claims with a $4 million limit per occurrence with no annual aggregate. The University self-insurance funds have insurance in excess of $4 million per occurrence through Oval Limited, a blended component unit of the University. Oval Limited provides coverage with limits of $40 million per occurrence and in the aggregate (prior to June 30, 2005—$25 million per occurrence and in the aggregate; prior to June 30, 2002—$15 million per occurrence and in the aggregate; prior to June 30, 1997—$10 million per occurrence and in the aggregate). The limits are in excess of underlying policies with limits ranging from $4 million to $10 million. A portion of the risks written by Oval Limited to date is reinsured by two reinsurance companies. Oval Limited retains 50% of the first $15 million of risk and cedes the remainder plus the second $15 million to AIG (rated A by A.M. Best). Above that, Oval Limited cedes the remaining $10 million of risk to Endurance Specialty Insurance (rated A by A.M. Best). The estimated liability and the related contributions to the fund are based upon an independent actuarial determination as of June 30, 2008. OSU Physicians, Inc. participates in the University self-insurance fund for professional medical malpractice liability claims. OSU Physicians premiums incurred and paid to the University were $9,474 and $10,252 during the years ended June 30, 2008 and 2007, respectively.

The Hospitals' 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, 2008 of the anticipated future payments on gross claims is estimated at its present value of $76,239 discounted at an estimated rate of 5.0% (University funds) and an additional $40,537 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 $151,527 are more than the recorded liability at June 30, 2008, and the surplus of $34,751 is included in unrestricted net assets.

The University is also self-insured for employee health insurance. As of June 30, 2008, $18,508 is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Changes in the reported liabilities since June 30, 2006 result from the following activities:

	Malpractice		Health	
	2008	2007	2008	2007
Liability at beginning of fiscal year	$ 103,447	$ 92,387	$ 17,216	$ 17,359
Current year claims, changes in estimates	14,087	19,390	186,102	152,562
Claim payments	(758)	(8,330)	(181,000)	(152,705)
Balance at fiscal year end	$ 116,776	$ 103,447	$ 22,318	$ 17,216

NOTE 7 — 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 year ended June 30, 2008 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series H	$ 72,600	$ 8,300	-	$ 80,900	$ 80,900
Notes:					
Transportation Research Center – Capital One Funding Corporation, due through 2014	1,906	-	$ 219	1,687	234
OSU Physicians - Fifth Third Note, due through 2008	7,861	-	2,500	5,361	2,372
Campus Partners – ESIC	12,000	-	367	11,633	400
Campus Partners – UDCDE Note A	23,014	2	200	22,816	164
Campus Partners – UDCDE Note B	10,376	-	-	10,376	-
Campus Partners – Mortgage Payable	-	445	9	436	12
Campus Partners – CCF Loan, City of Columbus	-	125	-	125	-
UMC Partners – Notes Payable	4,286	-	4,286	-	-
Adria Kravinsky Foundation – Notes Payable	4,324	-	1,784	2,540	201
Clifton Holding LLC	-	1,554	-	1,554	1,554
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	8,350	-	2,650	5,700	2,780
2002A, due serially through 2031	120,205	-	6,980	113,225	7,370
2003B, due serially through 2033	164,025	-	7,220	156,805	7,595
2005A, due serially through 2035	255,110	-	12,570	242,540	13,170
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	35,340	-	4,480	30,860	30,860
1999B1, due serially through 2029	52,600	-	3,700	48,900	48,900
2001, due serially through 2032	76,950	-	-	76,950	76,950
2003C, due serially through 2031	109,545	-	3,930	105,615	105,615
2005B, due serially through 2035	129,990	-	-	129,990	129,990
Capital Lease Obligations	29,609	5,097	6,622	28,084	7,903
	$ 1,118,091	$ 15,523	$ 57,517	$ 1,076,097	$ 516,970

Debt activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series G	$ 29,000	-	$ 29,000	-	-
Series H	-	$ 72,600	-	$ 72,600	$ 72,600
Notes:					
Transportation Research Center – Capital One Funding Corporation, due through 2014	2,027	-	121	1,906	219
OSU Physicians - Fifth Third Note, due through 2008	5,696	3,201	1,036	7,861	1,012
Campus Partners – ESIC	12,000	-	-	12,000	400
Campus Partners – UDCDE Note A	23,077	-	63	23,014	200
Campus Partners – UDCDE Note B	10,376	-	-	10,376	-
UMC Partners – Notes Payable	2,100	2,186	-	4,286	4,286
Adria Kravinsky Foundation – Notes Payable	4,599	-	275	4,324	275
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	10,885	-	2,535	8,350	2,650
2002A, due serially through 2031	126,885	-	6,680	120,205	6,980
2003B, due serially through 2033	171,090	-	7,065	164,025	7,220
2005A, due serially through 2035	267,125	-	12,015	255,110	12,570
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	39,540	-	4,200	35,340	35,340
1999B1, due serially through 2029	56,300	-	3,700	52,600	52,600
1999B2, due 2006	4,300	-	4,300	-	-
2001, due serially through 2032	76,950	-	-	76,950	76,950
2003C, due serially through 2031	113,355	-	3,810	109,545	109,545
2005B, due serially through 2035	129,990	-	-	129,990	129,990
Capital Lease Obligations	20,932	16,164	7,487	29,609	5,988
	$ 1,106,227	$ 94,151	$ 82,287	$ 1,118,091	$ 518,825

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 2036. Maturities and interest on debt obligations for the next five years and in five-year periods are as follows:

	Commercial Paper, Bonds, and Notes Payable		Capital Leases and Certificates of Participation	
	Principal	Interest	Principal	Interest
2009	$ 509,068	$ 31,847	$ 7,903	$ 923
2010	33,602	25,134	6,334	701
2011	44,296	23,722	4,300	512
2012	36,320	22,129	3,241	360
2013	45,788	19,123	2,764	233
2014-2018	127,355	75,980	3,542	351
2019-2023	122,953	46,087	-	-
2024-2028	70,211	21,352	-	-
2029-2033	47,640	6,358	-	-
2034-2037	10,780	140	-	-
	$ 1,048,013	$ 271,872	$ 28,084	$ 3,080

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 $63,199 for future debt service which is included in unrestricted net assets.

Variable Rate Demand Bonds

Series 1997, 1999B1, 2001, 2003C and 2005B 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, 2008 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	2.523%
1999 B1	12%	2.341%
2001	12%	2.160%
2003 C	12%	2.436%
2005 B	12%	3.114%

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 2035. GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the balance sheet 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 $392,315 and $404,425 at June 30, 2008 and 2007, respectively.

Commercial Paper

The General Receipts Commercial Paper Notes (the "Notes") are limited obligations of the University secured by a pledge of the General Receipts of the University. The Notes are not debts or bonded indebtedness of the State of Ohio and are not general obligations of the State of Ohio or the University, and neither the full faith and credit of the State of Ohio nor the University are pledged to the payment of the Notes. The Notes have been issued to provide for interim financing of various projects approved by the Board of Trustees. It is the University's intention to roll each maturity into new Notes as they mature and to issue additional Notes as project expenditures are incurred. It is the University's intention ultimately to roll the Notes into permanent tax exempt bonds.

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, 2008 are $53,042 and $28,084 respectively. The original cost and lease obligations related to these capital leases as of June 30, 2007 are $63,363 and $29,609 respectively.

NOTE 8 — 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 balance sheet. The total rental expense under these agreements was $29,349 and $25,279 for the years ended June 30, 2008 and 2007, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2008 are as follows:

Year Ending June 30,	
2009	$ 18,622
2010	12,775
2011	9,507
2012	7,039
2013	11,388
2014-2018	32,207
2019-2023	6,766
2024-2028	1,094
2029-2033	12
2034-2038	12
2039-2043	12
2044-2048	11
Total minimum lease payments	$ 99,445

NOTE 9 — 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 comp time in lieu of overtime pay. Any unused comp time must be paid to the employee at termination or retirement.

NOTE 10 — NONCURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2008 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 91,478	$ 12,483	$ 6,922	$ 97,039
Obligations under annuity and life income agreements	55,403	2,560	9,065	48,898
Refundable advances for Federal Perkins loans	29,409	1,677	-	31,086
Other non-current liabilities	22,045	8,636	-	30,681
	198,335	$ 25,356	$ 15,987	207,704
Less: Current portion	11,905			10,933
	$ 186,430			$ 196,771

Non-current liability activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 85,054	$ 13,253	$ 6,829	$ 91,478
Obligations under annuity and life income agreements	49,473	10,463	4,533	55,403
Refundable advances for Federal Perkins loans	30,065	-	656	29,409
Other non-current liabilities	41,999	-	19,954	22,045
	206,591	$ 23,716	$ 31,972	198,335
Less: Current portion	9,761			11,905
	$ 196,830			$ 186,430

Other non-current liabilities at June 30, 2008 and 2007 consist of the following:

	2008	2007
Amounts due to third-party payers – OSU Health System	$ 17,429	$ 8,406
Bond premium	13,252	13,639
	$ 30,681	$ 22,045

NOTE 11 — UNRESTRICTED AND RESTRICTED-EXPENDABLE NET ASSETS

Substantially all unrestricted net assets 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. Major components of unrestricted net assets at June 30, 2008 and 2007 are as follows:

	2008	2007
Educational and general	$ 613,633	$ 587,895
Auxiliary enterprises	5,056	5,826
OSU Health System	331,488	249,437
Loan funds	-	3,011
Unrestricted quasi-endowments	54,023	56,699
Plant	13,997	61,809
	$ 1,018,197	$ 964,677

Restricted expendable net assets are subject to various purpose or time-based restrictions set forth by donors or granting agencies. Major components of restricted-expendable net assets at June 30, 2008 and 2007 are as follows:

	2008	2007
Current operations	$ 309,652	$ 309,777
Loan funds	44,214	42,076
Restricted quasi-endowments	170,810	179,309
Plant	5,971	-
	$ 530,647	$ 531,162

NOTE 12 — 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 Assets. Operating expenses by object for the years ended June 30, 2008 and 2007 are summarized as follows:

Year Ended June 30, 2008	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 691,978	$ 125,168	-	-	$ 817,146
Separately budgeted research	260,581	131,406	-	-	391,987
Public service	82,273	39,292	-	-	121,565
Academic support	105,720	30,000	-	-	135,720
Student services	58,212	28,617	-	-	86,829
Institutional support	114,807	51,365	-	-	166,172
Operation and maintenance of plant	38,164	76,943	-	-	115,107
Scholarships and fellowships	4,624	2,822	$ 63,814	-	71,260
Auxiliary enterprises	108,165	112,517	-	-	220,682
OSU Health System	735,218	560,632	-	-	1,295,850
OSU Physicians, Inc.	170,110	60,293	-	-	230,403
Depreciation	-	-	-	$ 213,594	213,594
Total operating expenses	$ 2,369,852	$ 1,219,055	$ 63,814	$ 213,594	$ 3,866,315

Year Ended June 30, 2007	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 661,881	$ 99,042			$ 760,923
Separately budgeted research	243,769	120,401			364,170
Public service	80,680	35,824			116,504
Academic support	103,763	25,169			128,932
Student services	54,246	24,255			78,501
Institutional support	101,770	42,186			143,956
Operation and maintenance of plant	36,250	70,314			106,564
Scholarships and fellowships	4,633	6,985	$ 59,064		70,682
Auxiliary enterprises	95,210	109,499			204,709
OSU Health System	663,345	553,552			1,216,897
OSU Physicians, Inc.	154,264	72,348			226,612
Depreciation				$ 193,657	193,657
Total operating expenses	$ 2,199,811	$ 1,159,575	$ 59,064	$ 193,657	$ 3,612,107

NOTE 13 — 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	OPERS, Attn: Finance Director
275 East Broad Street	277 East Town Street
Columbus, OH 43215-3371	Columbus, OH 43215-4642
(614) 227-4090	(614) 222-5601
(888) 227-7877	(800) 222-7377
www.strsoh.org	www.opers.org

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

OPERS currently provides postemployment 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 the fiscal year ended December 31, 2007, OPERS allocated 5.0% (January 1 through June 30) and 6.0% (July 1 through December 31) of the employer contribution rate to fund the health care program for retirees.

The actuarial value of assets available for these benefits at December 31, 2006 (the date of the system's latest actuarial review) was $12.0 billion. There were 374,979 active contributing participants in the OPERS Traditional Pension and Combined Pension plans (i.e. OPERS plans with post employment health coverage) as of December 31, 2007 and 362,130 active contributing participants used in the December 31, 2006 actuarial valuation.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In response to skyrocketing health care costs, the HCPP restructured OPERS' health care coverage to improve the financial solvency of the fund by creating a separate investment pool for health care assets.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. HCPP incorporates a cafeteria approach, offering a broad range of health care options which allows benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

STRS Ohio currently provides access to health care coverage to retirees who participated in the deferred benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2007, STRS Ohio allocated employer contributions equal to 1% of covered payroll to a Health Care Stabilization Fund (HCSF) from which payments for health care benefits are paid. The balance in the HCSF was $4.1 billion at June 30, 2007.

STRS Ohio expenditures for postemployment health care benefits during the year ended June 30, 2007 were $266 million. There were 122,934 benefit recipients eligible for postemployment benefits at that date.

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

Defined Contribution Plans

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

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement health care benefits.

Combined Plans

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

Funding Policy

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

	STRS Ohio	OPERS	ARP
Faculty:			
Plan member (entire year)	10.00%		10.00%
University (entire year)	14.00%		14.00%*
Staff:			
Plan member (7/07 – 12/07)		9.50%	9.50%
Plan member (1/08 – 6/08)		10.00%	10.00%
University (7/07 – 12/07)		13.77%	13.77%**
University (1/08 – 6/08)		14.00%	14.00%***
Law enforcement staff:			
Plan member (entire year)		10.10%	10.10%
University (7/07 – 12/07)		17.17%	17.17%
University (1/08 – 6/08)		17.40%	17.40%

** Employer contributions include 3.5% paid to STRS Ohio.*
*** Employer contributions include .54% paid to OPERS (8/07 – 12/07).*
**** Employer contributions include .77% paid to OPERS (1/08 – 6/08).*
The remaining amount is credited to employee's ARP account.

The University's contributions, which represent 100% of required employer contributions, for the year ended June 30, 2008 and for each of the two preceding years are as follows:

Year Ended June 30,	STRS Ohio Annual Required Contribution	OPERS Annual Required Contribution	ARP Annual Required Contribution
2006	$ 42,599	$ 103,502	$ 30,055
2007	$ 45,252	$ 110,958	$ 32,726
2008	$ 47,516	$ 122,139	$ 34,830

OSU Physicians Retirement Plan

Retirement benefits are provided for the employees of OSU Physicians (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 $13,828 and $12,772 for the years ended June 30, 2008 and 2007, respectively.

NOTE 14 — CAPITAL PROJECT COMMITMENTS

At June 30, 2008, the University is committed to future contractual obligations for capital expenditures of approximately $247,003.

These projects are funded by the following sources:

State appropriations	$ 57,517
Internal and other sources	189,486
Total	$ 247,003

NOTE 15 — 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 Hospitals professional malpractice liability, employee health benefits, and employee life, accidental death and dismemberment benefits. Additional details regarding these self-insurance arrangements are provided in Note 5. 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 16 — FUNDS HELD IN TRUST BY OTHERS

The University is the beneficiary of and annually receives income from funds held in trust by other trustees. These funds are administered by outside trustees and are neither in the possession nor under the control of the University. The principal amount of these funds is not determinable at the present time.

NOTE 17 — SUBSEQUENT EVENTS

Issuance of Bonds

The University issued $127,770 in Variable Rate Demand General Receipts Bonds, Series 2008B, on September 30, 2008. The proceeds of this bond issue will be used to retire $80,900 of Series H Commercial Paper notes and to fund a variety of capital projects. The Series 2008B bonds will have annual principal payments until final maturity on December 1, 2028.

The University issued $217,595 in Fixed Rate General Receipts Bonds, Series 2008A, on January 22, 2009. The proceeds of this bond issue will be used to fund a variety of capital projects. The Series 2008A bonds will have annual principal payments until final maturity on December 1, 2028.

Commonfund Investments

On September 29, 2008, Commonfund and Participants in The Common Fund Short Term Investments (the “Short Term Fund”) received notice from the Trustee of the Short Term Fund, Wachovia Bank, N.A. of Wachovia’s decision to initiate the termination of the Short Term Fund, to establish procedures for an orderly liquidation and distribution of the fund’s assets and to resign their role as Trustee of the Short Term Fund. As Trustee, Wachovia has the sole discretion to take this action. The action by the Trustee restricted liquidity initially to 10% of each participant’s account balance, which has now increased to 26%. The restrictions are expected to increase to 57% by the end of 2008 and 74% by the end of 2009.

On October 1, 2008 the Commonfund Intermediate Term Fund (the “Intermediate Term Fund”) announced restrictions on liquidity to 30% of each participant’s account balance. This was done upon authorization of the Commonfund Board of Trustees.

At June 30, 2008 the University maintained $791 and $59,132 in the Short Term Fund and the Intermediate Term Fund, respectively. These investments are included as temporary investments in the accompanying financials. At the time of the redemption restrictions, the University maintained $704 in the Short Term Fund and $56,733 in the Intermediate Term Fund. Since the restrictions were announced, the University has recovered $368 from the Short Term Fund and $17,010 from the Intermediate Term Fund.

Market Declines

The University’s investment portfolio includes publicly traded securities. As a result, a significant downturn in the securities markets could adversely affect the market value of University assets. Subsequent to June 30, 2008, conditions in the worldwide debt and equity markets have deteriorated significantly. These conditions have had a negative effect on the fair value of the University’s investments since June 30, 2008. University management continues to monitor its investment portfolio as conditions evolve.

The Ohio State University

Supplementary Information on the Long-Term Investment Pool

for the Year Ended June 30, 2008

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, investments by type and risk disclosures, are provided in Notes 1 and 3 to the Financial Statements.

In 2008, the market value of the University's Long-Term Investment Pool, which includes both gifted endowments and long-term investments of University operating funds, decreased $262 million, to $2.08 billion at June 30, 2008. Changes in market value for 2008 are summarized below:

Long-Term Investment Pool Activity

(in thousands)

	Gifted Endowments		Long-Term	
	University	Foundation	Operating	Total
Market Value at June 30, 2007 *	**$ 1,133,463**	**$ 442,624**	**$ 762,016**	**$ 2,338,103**
Net principal additions/(withdrawals)	19,387	60,210	(46,912)	32,685
Change in market value:				
Realized gains/(losses) **	(61,870)	(26,368)	(41,062)	(129,300)
Unrealized gains/(losses)	(49,547)	(21,116)	(32,884)	(103,547)
Income earned	29,460	12,387	19,576	61,423
Distributions	(46,075)	(18,358)	(26,785)	(91,218)
Expenses	(15,483)	(6,526)	(10,284)	(32,293)
Market Value at June 30, 2008	**$ 1,009,335**	**$ 442,853**	**$ 623,665**	**$ 2,075,853**

* The June 30, 2007 market value of the Long-Term Investment Pool includes directly held real estate with a market value of $53,780. In accordance with generally accepted accounting principles for public institutions, this real estate was valued at its original cost of $31,268 in the University's audited financial report. The total value of the Long-Term Investment Pool reported in the June 30, 2007 audited financial report was $2,315,591.

** The $129,300 realized loss figure for the Long-Term Investment Pool includes a $3,000 realized "loss" related to the transfer of directly held real estate from the Pool to other University funds in FY2008. Although this amount reduces the Pool's market value, as reported on a stand-alone basis, it is eliminated in the University's audited financial report.

Net principal additions (withdrawals) include new endowment gifts, reinvestment of unused endowment income and transfers of operating funds to (from) the pool. **Changes in market value** include realized gains (losses) on the sale of investment assets and unrealized gains (losses) associated with assets held in the pool at June 30, 2008. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($19 million) and charges to fund University Development operations ($13 million).

Investment Returns and Expenses

In 2008, a challenging financial environment, combined with higher investment costs associated with turnover in the portfolio, resulted in a -8.2% return for the year. The annualized investment returns for the 3-year and 5-year periods ending June 30, 2008 were 6.2% and 8.9%, respectively. These return figures, which are used for comparisons with investment benchmarks and endowment returns at other institutions, include investment management expenses. The 2008 return, including all expenses, was -8.7%.

Additional Information

Additional details on University endowments, including balances for individual funds, are available on the University Treasurer's website at: **www.treasurer.ohio-state.edu/endowment/index.html**.

Acknowledgements

The 2008 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller, Division of Accounting.

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William J. Shkurti - Senior Vice President and Chief Financial Officer

Greta J. Russell - University Controller

2008 Board of Trustees

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

Institutional Highlights 2008

- For the 14th consecutive year, the incoming freshman class is the best academically prepared class in Ohio State's history.
  - The average ACT score is now **27.3**.
  - **54%** of freshmen were in the top 10% of their high school classes.
  - **91%** ranked in the top 25% of their high school classes.

- Ohio State maintained its place as one of the **nation's top-20 public universities**, according to *U.S. News & World Report's* 2009 edition of "America's Best Colleges." The survey recognized three Ohio State initiatives contributing to student success: First Year Experience, residential learning communities, and the Service-Learning Initiative.

- A record number of the 2007 freshman class returned to the university in autumn 2008. **Ohio State's first-year retention** for this class was 92.8 percent, nearly 20 percentage points above the national average for four-year colleges and universities. African American and Hispanic retention reached a new high of 91 percent, Pell Grant recipients returned at a rate of 88.8 percent, and first-generation students returned at a rate of 88.6 percent.

- The Ohio State University Medical Center has been recognized by the *U.S. News & World Report* as **one of "America's Best Hospitals"** for the 16th consecutive year. Eight of the center's medical specialties ranked among the nation's best, including a top-20 ranking for Ohio State's James Cancer Hospital and Solove Research Institute's oncology program.

- The university's **total research expenditures** in 2007 topped $720 million, putting Ohio State in the top 10 nationally (ranked ninth), second in industry research, and seventh among public universities, according to the National Science Foundation.

- Only one other institution in the country surpassed Ohio State in 2008 in the **number of research faculty named as new Fellows** of the American Association for the Advancement of Science (AAAS). Ohio State has either been first or second annually since 2002 in faculty named to this honor and is believed to have the nation's largest contingent of current Fellows.

- As Ohio's flagship university, Ohio State has **the nation's largest single-campus enrollment** with 53,715 students (61,568 on all campuses) and more than 420,000 living alumni around the world.

If you would like information about making a gift to support The Ohio State University, please visit giveto.osu.edu. Thank you for helping to provide the resources that will allow our numbers to continue to rise.

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