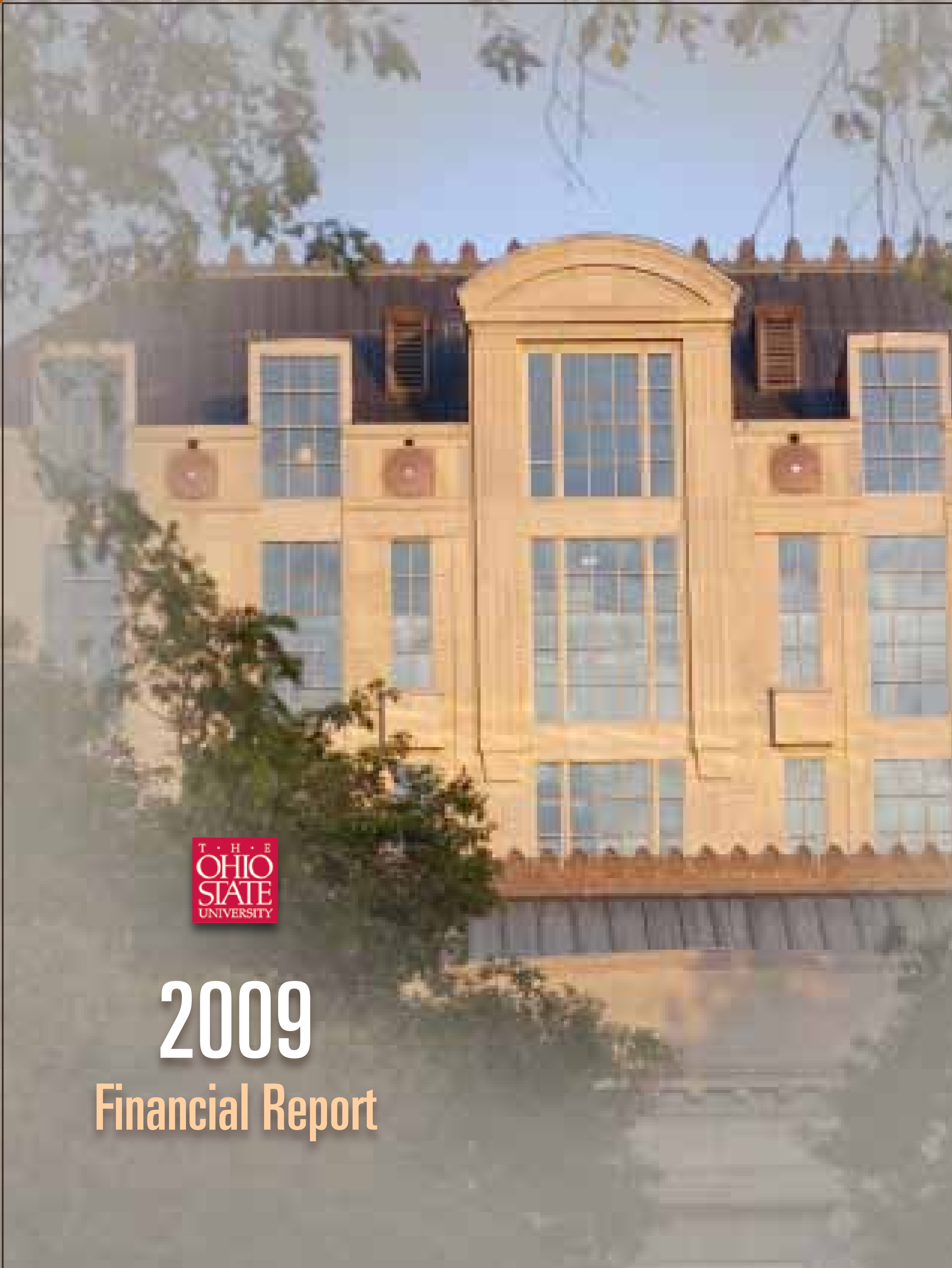

THE OHIO STATE UNIVERSITY

2009 Financial Report

Contents

ON THE COVER

The Thompson Library reopened in autumn 2009 after a three-year renovation project. New and renovated spaces include 1,800 study seats and 230 computers for public use throughout the building. The Grand Reading Room is a traditional study space overlooking the Oval, and the 11th floor Campus Reading Room features amazing views of campus and downtown Columbus.

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, 2009 and 2008.

In 2009, our state and national economies endured the most severe financial crisis since the Great Depression. The meltdown in the financial markets resulted in a $436 million net loss on university investments, with the university's Long Term Investment Pool reporting a negative 23.3% return for the year. The decline in the market value of our gifted endowment funds will reduce endowment income distributions to our colleges and vice presidential units for the next several years.

Despite these investment losses, however, the university's financial health remains relatively sound. Total expendable net assets increased $138 million, to $1.69 billion at June 30, 2009. Total plant debt, which includes bonds, notes and lease obligations, increased $284 million, to $1.36 billion, primarily due to two successful 2009 bond issues. Patient care revenues of the OSU Health System continued their upward trend, and student demand for an Ohio State education remains strong.

Facing unprecedented levels of budget uncertainty in the State of Ohio, the Governor and the General Assembly have been tremendously supportive of higher education, protecting the university's core funding, the State Share of Instruction, for the 2010-2011 biennium. This strong support, combined with prudent financial management and planning, has allowed Ohio State to increase its academic standing and improve its affordability to Ohio residents. A tuition freeze for in-state undergraduates will continue through spring quarter for a third consecutive year.

An additional stabilizing factor has been the receipt of federal stimulus funding, both directly (in the form of research grants) and indirectly from the State of Ohio (in the form of State Fiscal Stabilization Funds). Approximately 16% of total State Share of Instruction appropriated for Fiscal Year 2010 is backed by these federal funds.

Looking ahead, the state budget picture is still uncertain. The economic picture is still unclear and substantial one-time money, including federal stimulus money, runs out in Fiscal Year 2012. Ohio State is prepared to address a variety of contingencies. We believe the university has the assets, the leadership and the determination to continue 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, 2009 and 2008, 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, 2009 and 2008, and changes in their net assets, 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 the 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 basic financial statements. The Supplementary Information on the Long-Term Investment Pool on pages 44–45 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 the 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 them.

Deloitte & Touche LLP

October 23, 2009
(January 6, 2010, as to Note 17)

The Ohio State University

Management's Discussion and Analysis

for the Year Ended June 30, 2009

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, 2009, with comparative information for the years ended June 30, 2008 and June 30, 2007. 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 61,000 students, 5,700 faculty members and 21,000 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, 130 master's degree programs, 103 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 28 outpatient care centers. The System provided services to more than 55,000 adult inpatients and nearly 980,000 outpatients during Fiscal Year 2009.

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 18 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 the 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, 2009, with comparative information as of June 30, 2008. 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, 2009, with comparative information for Fiscal Year 2008. 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, 2009, with comparative information for Fiscal Year 2008. 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 section that provides supplementary information on the university's Long-Term Investment Pool.

Financial Highlights and Key Trends

Total university net assets (equity) declined $340 million, to $4.29 billion at June 30, 2009, primarily due to a $436 million net loss on university investments. The impact of this investment loss was concentrated in the restricted-nonexpendable (endowment) net asset category. University operating results were stable in 2009, with growth in operating revenues and state support offsetting similar increases in operating expenses. Total university plant debt increased $284 million, to $1.36 billion, primarily due to two 2009 bond issues. Total unrestricted and restricted-expendable net assets increased $138 million, to $1.69 billion.

Despite the financial pressures associated with a major recession in the national and state economies, demand for an Ohio State education remains strong, and student outcomes continue to improve. 61,568 students were enrolled in Autumn 2008, up slightly from Autumn 2007 total enrollment of 60,347. 92.8% of the freshmen enrolled in Autumn 2007 returned to OSU in Autumn 2008, up slightly from 92.4% in the comparable 2006-2007 period. Over the past five years, four-year graduation rates have increased from 35% to 49%, and six-year graduation rates have increased from 62% to 73%.

The following sections provide additional details on the university's 2009 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 $270 million in 2009, primarily due to net cash flows from capital financing 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 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 $413 million, to $1.66 billion at June 30, 2009, primarily due to a combination of realized and unrealized losses, which totaled $260 million and $227 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 decreased $33 million, to $70 million at June 30, 2009, primarily due to the transfer of $20 million of

I. Summary Statements of Net Assets

(in thousands)

	2009	2008	2007
Cash and temporary investments	$1,172,896	$ 902,919	$ 855,113
Current receivables, inventories, and prepaid expenses	525,105	539,482	483,998
Total current assets	1,698,001	1,442,401	1,339,111
Non-current notes and pledges receivable	70,017	70,200	74,380
Long-term investment pool	1,662,729	2,075,853	2,315,591
Other long-term investments	69,894	102,801	88,186
Capital assets, net of accumulated depreciation	3,090,668	2,924,033	2,825,828
Total non-current assets	4,893,308	5,172,887	5,303,985
Total assets	$6,591,309	$6,615,288	$6,643,096
Accounts payable and accrued expenses	$530,850	$520,806	$470,723
Deferred revenues and deposits	186,436	184,980	189,129
Commercial paper and current portion of bonds, notes, and lease obligations	631,604	516,970	518,825
Other current liabilities	9,828	10,933	11,905
Total current liabilities	1,358,718	1,233,689	1,190,582
Non-current portion of bonds, notes, and lease obligations	728,641	559,127	599,266
Other non-current liabilities	218,005	196,771	186,430
Total non-current liabilities	946,646	755,898	785,696
Total liabilities	$2,305,364	$1,989,587	$1,976,278
Invested in capital assets, net of related debt	$1,730,423	$1,847,935	$1,711,274
Restricted – nonexpendable net assets	868,466	1,228,922	1,459,705
Restricted – expendable net assets	468,122	530,647	531,162
Unrestricted net assets	1,218,934	1,018,197	964,677
Total net assets	$4,285,945	$4,625,701	$4,666,818

real estate investments to property, plant and equipment and an $11 million decrease in charitable annuity and trust balances.

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $167 million, to $3.09 billion at June 30, 2009. 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 2009 include the Ross Heart Hospital addition, Doan Hall addition, Ohio Union Garage South, Newark Warner Center, Mansfield Ovalwood Hall renovation, and Buckeye Field (Women's Softball Stadium). In addition, several major construction projects are currently underway or in advanced planning stages, including:

The renovated William Oxley Thompson Memorial Library

- William Oxley Thompson Memorial Library Renovation – At June 30, the $109 million renovation of the university's main library was nearing completion. The library re-opened for business in August 2009.
- Ohio Union Replacement – Work continues on a new 300,000 square foot student union, which is being built on the site of the old Ohio Union. The $118 million project is scheduled for completion in Spring 2010.
- Student Academic Services Building – Construction continues on a new $32 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. The project is scheduled for completion in Winter 2010.

- Medical Center Facilities Plan (ProjectOne) – The university continues to move forward on a master plan to invest up to $1 billion in construction and capital improvements to the Medical Center between 2010 and 2014. Current plans call for construction of a new Hospital Tower including five floors for Outpatient Services, five floors for the Critical Care Facility and seven floors for the new home for the James Cancer Hospital and Solove Research Institute. The new building will be located east of Cannon Drive. The project also includes construction of related parking and infrastructure improvements.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $244 million at June 30, 2009.

Accounts payable and accrued expenses were relatively stable in 2009, with increases in medical malpractice accruals and Health System amounts due to third-party payors offsetting decreases in retirement contributions payable.

Total university debt, in the form of **commercial paper, bonds, notes and capital lease obligations**, increased $284 million, to $1.36 billion at June 30, 2009. During 2009, the university issued $345 million in bonds, secured by the general receipts of the university. The university used these debt proceeds to retire commercial paper and to fund capital projects.

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 $511 million and $392 million at June 30, 2009 and 2008, respectively.

Other noncurrent liabilities increased $21 million, primarily due to bond premiums associated with the 2009 bond issues.

2007-2008 Highlights

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. ***In 2008***, 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.

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

(in thousands)

	2009	2008	2007
Operating Revenues:			
Tuition and fees, net	$ 622,857	$ 616,650	$ 583,580
Grants and contracts	613,018	601,742	560,855
Auxiliary enterprises sales and services, net	194,862	192,071	179,855
OSU Health System sales and services, net	1,578,401	1,460,868	1,354,702
OSU Physicians sales and services, net	286,490	256,910	239,852
Departmental sales and other operating revenues	161,063	159,704	142,504
Total operating revenues	3,456,691	3,287,945	3,061,348
Operating Expenses:			
Educational and general	1,933,759	1,905,786	1,770,232
Auxiliary enterprises	214,807	220,682	204,709
OSU Health System	1,407,701	1,295,850	1,216,897
OSU Physicians	262,131	230,403	226,612
Depreciation	221,894	213,594	193,657
Total operating expenses	4,040,292	3,866,315	3,612,107
Net operating income (loss)	(583,601)	(578,370)	(550,759)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	497,601	469,162	451,964
Gifts – current use	77,255	78,675	76,541
Net investment income (loss)	(435,898)	(141,558)	429,584
Grants, interest expense, and other non-operating	2,884	(7,725)	(18,804)
Income (loss) before other revenues, expenses, gains, or losses	(441,759)	(179,816)	388,526
State capital appropriations	47,227	72,837	40,928
Private capital gifts	18,960	6,754	28,725
Additions to permanent endowments	35,816	59,108	46,426
Increase (decrease) in net assets	(339,756)	(41,117)	504,605
Net assets – beginning of year	4,625,701	4,666,818	4,162,213
Net assets – end of year	$4,285,945	$4,625,701	$4,666,818

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

Net **tuition and fees** increased $6 million, to $623 million in 2009. Under the terms of Amended Substitute House Bill 119, the university agreed to freeze undergraduate instructional and general fees for FY2008 and FY2009, in exchange for increased funding for **state share of instruction**. Tuition increases for graduate and professional programs ranged from 5% to 10%. However, these increases were partially offset by a reduction in the required credit hours for doctoral candidates, which resulted in an $11 million decrease in graduate tuition revenues. This reduction in graduate tuition revenues was largely offset by a corresponding drop in expense for graduate fee authorizations.

Operating **grant and contract revenues** increased $11 million, to $613 million in 2009, primarily due to increases in research grants and contracts. Revenues for sponsored research programs administered by the Office of Sponsored Programs (formerly known as the OSU Research Foundation) increased $25 million, to $404 million in 2009. These increases were partially offset by reductions in private grant and contract revenues for the Transportation Research Center (down $6 million) and Prologue Research International (down $4 million).

Educational and general expenses increased 1.5%, to $1.93 billion in 2009. Additional details are provided in the table at right.

Total **instructional and departmental research** expenses increased $24 million in 2009, primarily due to faculty/staff salary and benefit increases. 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** expenses were relatively stable, with increases in sponsored program expenses offsetting decreases in consolidated expenses for Transportation Research Center and Prologue Research International, decreases in graduate fee authorizations (related to the reduction in required hours for doctoral candidates), and eliminations for capital expenditure activity. **Institutional support** increased $11 million, primarily due to increased expenditures for the Student Information System project, increases in investment-related expenses and timing issues associated with the processing of legal expenses.

Sales and service revenues of the university's **Auxiliary Enterprises** increased $3 million, to $195 million in 2009, primarily due to increases in Housing, Food Service and Event Center and Athletics revenues, which were partially offset by decreases in revenues for other auxiliary units. Auxiliary expenses decreased $6 million, primarily due to reductions in Fawcett Center expenses and central accrual activity.

Educational and General Expenses

(in thousands)

	2009	2008	2007
Instruction and departmental research	$ 840,697	$ 817,146	$ 760,923
Separately budgeted research	392,033	391,987	364,170
Public service	120,015	121,565	116,504
Academic support	133,655	135,720	128,932
Student services	87,993	86,829	78,501
Institutional support	177,548	166,172	143,956
Operation and maintenance of plant	112,097	115,107	106,564
Scholarships and fellowships	69,721	71,260	70,682
Total	$1,933,759	$1,905,786	$1,770,232

The **Ohio State University Health System** continued its planned growth during Fiscal Year 2009 with the addition of the new magnetic resonance imaging facility (which opened August 2009), continued development of additional faculty space to facilitate the vacating and eventual demolition of Means Hall (allowing space for future construction), and continued expansion of the breadth of outpatient services at the Morehouse Medical Plaza on Kenny Road.

Health System adult inpatient admissions increased 2.4% over the prior year, while outpatient volume grew by 6.0%. Consolidated Health System Total Operating Revenues increased $118 million (8.1%) due to volume increases along with selective rate increases. Expenses for the consolidated Health System (excluding depreciation, interest and interfund transfers) increased $112 million (8.6%). Salaries and benefits increased 8.6% due to increased patient activity and a competitive labor market. Supplies increased 7.8% due to volume, medical advances, inflation and more intensive patient care services. The Health System's Excess of Revenue over Expense for 2009 was $122.0 million. After investing $86.0 million in research and education, the change in net assets was $38.1 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. While facing the uncertainties of the economy and healthcare reform, 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 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 2009. Total operating revenues grew from $257 million to $286 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 $230 million to $262 million.

OSUP is the single member of 17 limited liability companies ("LLCs"). As of June 30, 2009, only 15 of the limited liability companies were active. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no 2009 activity.

The table on page 11 lists the LLCs that were included in OSUP's financial statements as of June 30, 2009 and 2008.

Non-endowment gifts to the university (including gifts for current use and gifts to capital projects) increased $11 million, to $96 million in 2009. New gift **additions to**

Practice Plan	2009	2008
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

permanent endowments decreased $23 million, to $36 million. Due to the economy, University Development estimates that total gift revenues will remain flat in 2010.

During 2009, 119,048 donors made gifts to the university, the second highest year on record after 2007.

The university’s **net investment loss** grew from $142 million in 2008 to $436 million in 2009. Fiscal Year 2009 was affected negatively by the financial markets meltdown in the fall of 2008. The portfolio was hit hard in September and October of 2008 during the worst of the financial crisis. In general, financial markets bottomed in March 2009, and have partially recovered to varying degrees. The pool has been rebuilding from its February low and has experienced a significant recovery since that point. The net investment loss figure includes $71 million of interest and dividend income and $507 million net depreciation in the fair market value of university investments.

2007-2008 Highlights

2007-2008 Highlights: ***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. ***In 2008***, total operating revenues increased $227 million, to $3.29 billion, primarily due to growth in patient care, grant and contract and tuition revenues. Total operating expenses increased $254 million, to $3.87 billion, primarily due to increases in educational and general and OSU Health System expenses. A challenging financial environment resulted in a $142 million net loss on university investments.

III. University Cash Flows Summary

(in thousands)

	2009	2008	2007
Net cash flows from operating activities	$(315,515)	$(343,577)	$(314,186)
Net cash flows from non-capital financing activities	647,253	649,100	620,629
Capital appropriations and gifts for capital projects	70,227	75,128	76,837
Proceeds from issuance of bonds and notes payable	427,138	10,038	77,598
Payments for purchase and construction of capital assets	(380,707)	(311,494)	(311,128)
Principal and interest payments on capital debt	(184,192)	(108,915)	(129,389)
Net cash flows from investing activities	61,882	84,949	98,504
Net increase (decrease) in cash	$ 326,086	$ 55,229	$ 118,865

III. Statement of Cash Flows

Total university cash and cash equivalents increased $326 million in 2009, primarily due to the proceeds from two bond issues. Net cash flows from operating activities increased $28 million, with increased receipts for tuition, grants and contracts and sales and services more than offsetting increases in payments for wages, benefits and supplies and services. Total cash provided by noncapital financing activities was relatively stable in 2009, with increases in state appropriations offsetting decreases in gift receipts. Total cash provided by investing activities was $62 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

In FY2009, the nation faced its worst financial crisis since the Great Depression of the 1930's. This created an unprecedented level of budget uncertainty for state government and for the university. Because of strong financial support from the Governor and the General Assembly, as well as prudent fund management and planning, the university was able to increase its academic standing and improve its affordability to Ohio residents. In an effort to preserve Ohio State's affordability, the university will continue its undergraduate tuition freeze through spring quarter for the third consecutive fiscal year, even though the

2010-2011 biennial state budget (Am. Sub. H.B. 1) permits instructional and general fees to increase by 3.5%.

The FY2010 budget is structured to move the university forward academically in this time of extraordinary financial instability by supporting the following thematic goals:

- 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 FY2010 budget also reflects the university's continued commitment to realize cost savings and efficiencies in a number of areas, including energy sustainability, strategic purchasing, the Transition to Work program, Your Plan for Health, enterprise-wide systems and the streamlining of business processes.

Although the university can balance its Columbus campus general funds budget and keep the tuition freeze intact during the 2009-2010 academic year, the two years that follow are currently expected to be much more challenging. State support, in the form of State Share of Instruction (SSI) and line-item appropriations, is expected to be flat in FY2011. Approximately 16% of total SSI appropriated funding in FY2010 is backed by one-time State Fiscal Stabilization Funds from the federal government. If the state economy does not sufficiently recover to replace those funds in FY2012, the university could face a reduction in SSI of over $60 million, which is approximately 6% of OSU's FY2010 subsidy and tuition budget.

Despite these economic challenges, we remain committed to building upon current efforts to enhance the university's academic reputation, diversify our revenue base, realize operating efficiencies and effectively manage our financial risks. By doing so, we feel The Ohio State university will maintain its sound financial position while continuing its progress towards becoming a top-tier public research university.

Despite these economic challenges, we remain committed to building upon current efforts to enhance the university's academic reputation, diversify our revenue base, realize operating efficiencies and effectively manage our financial risks.

THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENTS OF NET ASSETS

June 30, 2009 and 2008
(in thousands)

	2009	2008
ASSETS:		
Current Assets:		
Cash and cash equivalents (including bond proceeds restricted for capital expenditures of $111,845 and $37,110, respectively)	$ 712,604	$ 386,518
Temporary investments	460,292	516,401
Accounts receivable, net	408,539	423,768
Notes receivable – current portion, net	12,816	11,350
Pledges receivable – current portion, net	23,697	22,359
Accrued interest receivable	16,684	18,896
Inventories and prepaid expenses	63,369	63,109
Total Current Assets	1,698,001	1,442,401
Non-current Assets:		
Notes receivable, net	58,761	60,816
Pledges receivable, net	11,256	9,384
Long-term investment pool	1,662,729	2,075,853
Other long-term investments	69,894	102,801
Capital assets not being depreciated	432,492	342,506
Capital assets being depreciated, net	2,658,176	2,581,527
Total Non-current Assets	4,893,308	5,172,887
Total Assets	**$ 6,591,309**	**$ 6,615,288**
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	$ 530,850	$ 520,806
Deposits and deferred revenues	186,436	184,980
Commercial paper and current portion of bonds, notes, and leases payable	631,604	516,970
Compensated absences – current portion	6,525	6,922
Obligations under annuity and life income agreements – current portion	3,303	4,011
Total Current Liabilities	1,358,718	1,233,689
Non-current Liabilities:		
Bonds, notes, and leases payable	728,641	559,127
Compensated absences	97,056	90,117
Obligations under annuity and life income agreements	35,541	44,887
Refundable advances for Federal Perkins loans	29,907	31,086
Other non-current liabilities	55,501	30,681
Total Non-current Liabilities	946,646	755,898
Total Liabilities	**2,305,364**	**1,989,587**
Net Assets:		
Invested in capital assets, net of related debt	1,730,423	1,847,935
Restricted:		
Nonexpendable	868,466	1,228,922
Expendable	468,122	530,647
Unrestricted	1,218,934	1,018,197
Total Net Assets	**4,285,945**	**4,625,701**
Total Liabilities and Net Assets	**$ 6,591,309**	**$ 6,615,288**

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, 2009 and 2008
(in thousands)

	2009	2008
Operating Revenues:		
Student tuition and fees	$ 622,857	$ 616,650
(net of scholarship allowances of $116,357 and $107,623, respectively)		
Federal grants and contracts	283,484	275,361
State grants and contracts	76,896	57,251
Local grants and contracts	23,680	23,864
Private grants and contracts	228,958	245,266
Sales and services of educational departments	101,848	94,499
Sales and services of auxiliary enterprises	194,862	192,071
(net of scholarship allowances of $15,118 and $13,133, respectively)		
Sales and services of the OSU Health System	1,578,401	1,460,868
(net of charity care of $164,132 and $152,061, respectively)		
Sales and services of OSU Physicians, Inc.	286,490	256,910
(net of charity care of $3,182 and $5,268, respectively)		
Other operating revenues	59,215	65,205
Total Operating Revenues	3,456,691	3,287,945
Operating Expenses:		
Educational and General:		
Instruction and departmental research	840,697	817,146
Separately budgeted research	392,033	391,987
Public service	120,015	121,565
Academic support	133,655	135,720
Student services	87,993	86,829
Institutional support	177,548	166,172
Operation and maintenance of plant	112,097	115,107
Scholarships and fellowships	69,721	71,260
Auxiliary enterprises	214,807	220,682
OSU Health System	1,407,701	1,295,850
OSU Physicians, Inc.	262,131	230,403
Depreciation	221,894	213,594
Total Operating Expenses	4,040,292	3,866,315
Operating Loss	(583,601)	(578,370)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	497,601	469,162
Federal non-exchange grants	34,184	31,516
State non-exchange grants	12,783	14,385
Gifts	77,255	78,675
Net investment income (loss)	(435,898)	(141,558)
Interest expense on plant debt	(36,613)	(42,437)
Other non-operating revenues (expenses)	(7,470)	(11,189)
Net Non-operating Revenue (Expense)	141,842	398,554
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(441,759)	(179,816)
State capital appropriations	47,227	72,837
Private capital gifts	18,960	6,754
Additions to permanent endowments	35,816	59,108
Increase (Decrease) in Net Assets	(339,756)	(41,117)
Net Assets – Beginning of Year	4,625,701	4,666,818
Net Assets – End of Year	$4,285,945	$4,625,701

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 534,269	$ 504,871
Grant and contract receipts	626,785	605,653
Receipts for sales and services	2,185,979	1,964,863
Payments to or on behalf of employees	(1,910,303)	(1,771,998)
University employee benefit payments	(523,029)	(464,400)
Payments to vendors for supplies and services	(1,220,643)	(1,177,180)
Payments to students and fellows	(61,826)	(63,814)
Student loans issued	(7,188)	(11,304)
Student loans collected	7,946	8,590
Student loan interest and fees collected	971	974
Other receipts (payments)	51,524	60,168
Net cash provided (used) by operating activities	(315,515)	(343,577)
Cash Flows from Non-capital Financing Activities:		
State share of instruction and line-item appropriations	497,601	469,162
Non-exchange grant receipts	46,967	45,901
Gift receipts for current use	74,043	76,175
Additions to permanent endowments	35,816	59,108
Drawdowns of federal direct loan proceeds	338,500	308,836
Disbursements of federal direct loans to students	(343,000)	(307,919)
Repayment of loans to related organization	1,016	218
Amounts received for annuity and life income funds	647	2,560
Amounts paid to annuitants and life beneficiaries	(4,158)	(4,545)
Agency funds receipts	5,354	5,204
Agency funds disbursements	(5,533)	(5,600)
Net cash provided (used) by non-capital financing activities	647,253	649,100
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	427,138	10,038
State capital appropriations	51,267	68,374
Gift receipts for capital projects	18,960	6,754
Payments for purchase or construction of capital assets	(380,707)	(311,494)
Principal payments on capital debt and leases	(138,935)	(57,517)
Interest payments on capital debt and leases	(45,257)	(51,398)
Net cash provided (used) by capital financing activities	(67,534)	(335,243)

Continued on next page

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

Continued

	2009	2008
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	39,941	2,954
Proceeds from sales and maturities of long-term investments	930,588	2,119,208
Investment income, net of related fees	73,652	97,480
Purchases of long-term investments	(982,299)	(2,134,693)
Net cash provided (used) by investing activities	61,882	84,949
Net Increase (Decrease) in Cash	326,086	**55,229**
Cash and Cash Equivalents – Beginning of Year	386,518	331,289
Cash and Cash Equivalents – End of Year	$ 712,604	$ 386,518
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	$ (583,601)	$ (578,370)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:		
Depreciation expense	221,894	213,594
Changes in assets and liabilities:		
Accounts receivable, net	15,691	(44,611)
Notes receivable, net	(426)	(2,820)
Accrued interest receivable	(425)	(525)
Inventories and prepaid expenses	(260)	3,999
Accounts payable and accrued liabilities	11,383	52,712
Deposits and deferred credits	2,133	(3,816)
Compensated absences	6,542	5,560
Refundable advances for federal Perkins loans	(1,179)	1,677
Other non-current liabilities	12,733	9,023
Net cash provided (used) by operating activities	$ (315,515)	$ (343,577)
Non Cash Transactions:		
Equipment	$ 8,032	$ 5,097
Capital lease	(8,032)	(5,097)

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

Notes to Financial Statements

for the Years Ended June 30, 2009 and 2008

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
- Twelve 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.
  - 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, 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, 2009, the university has made commitments to limited partnerships totaling $368,000 that have not yet been funded. In the prior fiscal year, the university had made commitments to limited partnerships totaling $158,158 that had not yet been funded as of June 30, 2008.

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, 2009 are $4,177 and $14,629, respectively. The carrying and market values of real estate at June 30, 2008 are $122,907 and $141,308, 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 Prudent 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 2008 and 2009. 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 $92,050 and $91,218 in fiscal years 2009 and 2008, respectively.

At June 30, 2009, the market value of the University's gifted endowments was $1,094,849, which is $44,571 below the historic dollar value of $1,139,420, due to the unusually adverse market conditions in Fiscal Year 2009.

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(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. $6,916 and $5,145 of interest was capitalized in the years ended June 30, 2009 and 2008, 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.

Derivative Instruments and Hedging Activities

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

Operating and Non-Operating Revenues

The university defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses, and Other Changes in Net 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 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.

University management has not yet determined the impact that implementation of GASB Statement 51 will have on the university's financial statements.

The university early-adopted GASB 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 effect of the adoption of GASB Statement No. 53 did not have a material effect 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 2008 comparative information to conform with the 2009 presentation.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2009, the carrying amount of the university's cash and cash equivalents for all funds is $712,604 as compared to bank balances of $882,180. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $7,258 is covered by federal deposit insurance and $874,922 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 and maintaining the real purchasing power of the principal while allowing for an annual distribution. In April 2009, the university's Board of Trustees approved the following thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool:

Asset Class	Range	Benchmark
Market Exposure	10-50%	50%(Russell 3000) + 50%(EAFE)
Risk Reducers	25-50%	90 Day T-Bill + 4%
Return Enhancers	10-25%	120%(80% Russell 3000 + 20% EM Index)
Inflation Hedges	10-25%	75%(CPI+4%) + 25% (NACREIF Real Estate Index)

The Market Exposure category includes domestic equities, international equities and long biased long/short managers. The Risk Reducers category includes fixed income and low volatility absolute return managers. The Return Enhancers category includes private equities, higher volatility hedge funds and emerging market equities. The Inflation Hedges category includes real estate, timber, energy, TIPS, agriculture, commodities and infrastructure.

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, 2009 and 2008 are as follows:

	2009	2008
Temporary Investments	$ 460,292	$ 516,401
Long-Term Investment Pool:		
Gifted Endowment—university	746,456	1,009,335
Gifted Endowment—OSU Foundation	348,393	442,853
Operating Endowment:		
Operating Funds Long-Term Component	561,248	598,000
President's Strategic Initiative Fund	-	21,011
Maintenance and Renewal Fund	6,632	4,654
Total Long-Term Investment Pool	1,662,729	2,075,853
Other Long-Term Investments	69,894	102,801
Total Investments	$ 2,192,915	$ 2,695,055

Total University investments by investment type at June 30, 2009 are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 5	$ 236,362	$ 90	$ 236,457
Equity mutual funds	31,696	251,912	19,013	302,621
U. S. government obligations	25,067	21,366	4,074	50,507
U. S. government agency obligations	107,450	44,867	-	152,317
Repurchase agreements	75,942	-	-	75,942
Corporate bonds and notes	80,295	97,300	274	177,869
Bond mutual funds	116,134	138,772	21,533	276,439
International bonds	7	507	-	514
Real estate	146	-	4,031	4,177
Partnerships and hedge funds	-	723,100	-	723,100
Cash and cash equivalents	-	148,543	-	148,543
Other	23,550	-	20,879	44,429
Total	$ 460,292	$ 1,662,729	$ 69,894	$ 2,192,915

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

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2009, the university realized a net loss of $274,315 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, 2009, was $507,101. 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 $232,786.

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	$ 26,570	$ (16,169)	$ 10,401
Long-Term Investment Pool	44,564	(487,666)	(443,102)
Other Long-Term Investments	69	(3,266)	(3,197)
Total 2009	$ 71,203	$ (507,101)	$ (435,898)
Total 2008	$ 95,998	$ (237,556)	$ (141,558)

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, 2009 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	$ 50,507	$ 22,399	$ 12,030	$ 9,075	$ 7,003
U. S. agency obligations	152,317	13,412	70,888	34,210	33,807
Repurchase agreements	75,942	75,942	-	-	-
Corporate bonds	177,869	3,400	96,700	67,841	9,928
Bond mutual funds	276,439	55,418	107,787	88,376	24,858
International bonds	514	-	7	507	-
Total	$ 733,588	$ 170,571	$ 287,412	$ 200,009	$ 75,596

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

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, 2009 are as follows:

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	International Bonds
AAA	$ 526,127	$ 202,824	$ 75,942	$ 32,712	$ 214,649	-
AA	50,146	-	-	28,948	21,198	-
A	107,529	-	-	78,486	29,043	-
BBB	42,011	-	-	34,870	6,634	$ 507
BB	4,659	-	-	2,824	1,835	-
B	1,019	-	-	-	1,019	-
CCC	1,777	-	-	-	1,777	-
CC	-	-	-	-	-	-
C	-	-	-	-	-	-
Not Rated	320	-	-	29	284	7
Total	$ 733,588	$ 202,824	$ 75,942	$ 177,869	$ 276,439	$ 514

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

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, 2009, the university's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	International Bonds
Australian dollar	$ 2,942	$ 6,178	$ 141	-	-
Brazilian real	2,288	2,622	1,126	-	-
Canadian dollar	7,528	8,049	559	-	-
Chilean peso	-	284	-	-	-
Chinese yuan	-	3,438	-	-	-
Colombian peso	-	79	-	-	-
Czech Republic koruna	-	84	-	-	-
Danish krone	773	734	200	-	-
Egyptian pound	-	100	-	-	-
Euro	39,674	27,253	17,398	$ 271	-
Great Britain pound sterling	22,074	17,549	1,882	-	-
Hong Kong dollar	7,360	2,033	-	-	-
Hungarian forint	277	108	-	-	-
Indian rupee	-	1,314	-	-	-
Indonesian rupiah	171	290	-	-	-
Israeli shekel	108	534	-	-	-
Japanese yen	26,612	20,351	10,932	-	-
Jordanian dinar	-		-	-	-
Malaysian ringgit	334	534	-	-	-
Mexican peso	394	795	-	-	$ 507
Moroccan dirham	-	71	-	-	-
New Taiwan dollar	3,008	2,077	-	-	-
New Zealand dollar	455	115	1	-	-
Norwegian kroner	2,122	620	61	-	-
Peruvian nuevo sol	-	100	-	-	-
Phillippine peso	-	84	-	-	-
Polish zloty	181	216	194	-	-
Russian ruble	-	1,116	-	-	-
Singapore dollar	1,559	1,181	-	-	-
South African rand	2,520	1,306	-	-	-
South Korean won	6,027	2,217	-	-	-
Swedish krona	2,695	2,081	157	-	-
Swiss franc	4,668	6,358	168	-	-
Thailand bhat	1,558	261	-	-	-
Turkish lira	-	245	-	-	-
Other currencies	-	-	-	-	-
Total	$ 135,328	$ 110,377	$ 32,819	$ 271	$ 507

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	-	-

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2009 and 2008 consist of the following:

	2009	2008
Patient receivables – OSU Health System	$ 714,857	$ 698,479
Patient receivables – OSU Physicians, Inc.	87,318	83,909
Grant and contract receivables	67,734	79,491
Tuition and fees receivable	39,713	38,360
Receivables for departmental and auxiliary sales and services	64,309	69,992
State and federal receivables	7,098	6,638
	981,029	976,869
Less: Allowances for doubtful accounts	572,490	553,101
	$ 408,539	$ 423,768

Notes receivable consist primarily of Perkins Loans and are net of an allowance for doubtful accounts of $17,450 at June 30, 2009 and $16,700 at June 30, 2008. 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 $41,044 in non-endowment pledges receivable at June 30, 2009 and a related allowance for doubtful accounts of $6,091. The university recorded $42,076 in non-endowment pledges receivable and a related allowance for doubtful accounts of $10,333 at June 30, 2008.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 48,877	$ 26,077	$ 836	$ 74,118
Construction in progress	293,629	64,745	-	358,374
Total non depreciable assets	342,506	90,822	836	432,492
Capital assets being depreciated:				
Improvements other than buildings	269,802	9,930	-	279,732
Buildings and fixed equipment	3,448,422	178,140	18,738	3,607,824
Movable equipment and furniture	845,285	116,039	62,810	898,514
Library books	164,543	3,155	5,363	162,335
Total	4,728,052	307,264	86,911	4,948,405
Less: Accumulated depreciation	2,146,525	221,894	78,190	2,290,229
Total depreciable assets, net	2,581,527	85,370	8,721	2,658,176
Capital assets, net	$ 2,924,033	$ 176,192	$ 9,557	$ 3,090,668

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

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 52,053	$ 3,650	$ 6,826	$ 48,877
Construction in progress	281,575	12,054	-	293,629
Total non depreciable assets	333,628	15,704	6,826	342,506
Capital assets being depreciated:				
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
Total	4,489,591	318,303	79,842	4,728,052
Less: Accumulated depreciation	1,997,391	213,594	64,460	2,146,525
Total depreciable assets, net	2,492,200	104,709	15,382	2,581,527
Capital assets, net	$ 2,825,828	$ 120,413	$ 22,208	$ 2,294,033

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, 2009 and 2008 consist of the following:

	2009	2008
Payables to vendors for supplies and services	$ 175,491	$ 173,404
Accrued compensation and benefits	118,204	113,256
Retirement system contributions payable	47,514	58,742
Self-insurance accruals:		
Medical malpractice	125,938	116,776
Employee health insurance	22,539	22,318
Current portion of amounts due to third-party payers – OSU Health System	21,988	15,499
Other accrued expenses	19,176	20,811
	$ 530,850	$ 520,806

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 $55 million per occurrence and in the aggregate. Previous coverage levels for Oval Limited are as follows:

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

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, 2009. 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 $7,458 and $9,474 during the years ended June 30, 2009 and 2008, 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, 2009 of the anticipated future payments on gross claims is estimated at its present value of $86,879 discounted at an estimated rate of 3.0% (university funds) and an additional $39,059 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 $143,631 are more than the recorded liability at June 30, 2009, and the surplus of $17,693 is included in unrestricted net assets.

The university is also self-insured for employee health insurance. As of June 30, 2009, $22,539 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, 2007 result from the following activities:

	Malpractice		Health	
	2009	2008	2009	2008
Liability at beginning of fiscal year	$116,776	$103,447	$22,318	$17,216
Current year claims, changes in estimates	11,777	14,087	206,301	186,102
Claim payments	(2,615)	(758)	(206,080)	(181,000)
Balance at fiscal year end	$125,938	$116,776	$22,539	$22,318

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, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series H	$ 80,900	-	$ 80,900	-	-
Series I		$ 50,000	-	$ 50,000	$ 50,000
Notes:					
Transportation Research Center - Capital One Funding Corporation, due through 2014	1,687	-	234	1,453	252
OSU Physicians - Fifth Third Note, due through 2008	5,361	-	3,569	1,792	182
OSU Physicians – Fifth Third Note, due through 2019	-	17,964	2,575	15,389	15,389
Campus Partners - ESIC	11,633	-	400	11,233	400
Campus Partners - UDCDE Note A	22,816	-	213	22,603	229
Campus Partners - UDCDE Note B	10,376	-	-	10,376	-
Campus Partners – Mortgage Payable	436	-	12	424	13
Campus Partners – CCF Loan, City of Columbus	125	-	-	125	-
Adria Kravinsky Foundation – Notes Payable	2,540	-	1,842	698	65
Clifton Holding LLC	1,554	172	-	1,726	1,726
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	5,700	-	2,780	2,920	2,920
2002A, due serially through 2031	113,225	-	7,370	105,855	7,745
2003B, due serially through 2033	156,805	-	7,595	149,210	7,695
2005A, due serially through 2035	242,540	-	13,170	229,370	13,730
2008A, due serially through 2028	-	217,595	-	217,595	12,090
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	30,860	-	1,100	29,760	29,760
1999B1, due serially through 2029	48,900	-	3,700	45,200	45,200
2001, due serially through 2032	76,950	-	-	76,950	76,950
2003C, due serially through 2031	105,615	-	4,085	101,530	101,530
2005B, due serially through 2035	129,990	-	-	129,990	129,990
2008B, due serially through 2028	-	127,770	-	127,770	127,770
Capital Lease Obligations	28,084	8,033	7,841	28,276	7,968
	$ 1,076,097	$ 421,534	$ 137,386	$ 1,360,245	$ 631,604

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 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 2035. 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
2010	$ 623,636	$ 36,045	$ 7,968	$ 1,089
2011	46,165	32,848	5,859	806
2012	59,331	30,796	4,888	575
2013	58,576	27,322	4,386	367
2014	38,829	25,079	2,438	208
2015-2019	180,641	98,495	2,737	257
2020-2024	163,395	58,610	-	-
2025-2029	115,230	24,154	-	-
2030-2034	35,585	3,872	-	-
2033-2038	10,581	175	-	-
	$ 1,331,969	$ 337,396	$ 28,276	$ 3,302

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 $88,268 for future debt service which is included in unrestricted net assets.

Variable Rate Demand Bonds

Series 1997, 1999B1, 2001, 2003C, 2005B and 2008B 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, 2009 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	2.398%
1999 B1	12%	2.186%
2001	12%	1.989%
2003 C	12%	2.169%
2005 B	12%	2.559%
2008 B	12%	1.515%

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 $511,200 and $392,315 at June 30, 2009 and 2008, 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, 2009 are $61,074 and $28,275 respectively. The original cost and lease obligations related to these capital leases as of June 30, 2008 are $53,042 and $28,084 respectively.

Interest Rate Swap Agreement

On January 6, 2009, OSU Physicians, Inc. (OSUP) entered into an interest rate swap ("the swap") agreement fixing the interest rate on the $15.5 million Term Loan debt. Under the agreement OSUP pays a fixed rate of 4.625% to the bank and receives 30-day LIBOR rate in effect at the beginning of the month. The transaction is designed to manage OSUP's interest costs and risks associated with the variable interest rate debt. OSUP settles with the bank monthly for the difference between the 4.625% and the 30-day LIBOR rate in effect at the beginning of the month. The estimated fair value of this agreement, based on various factors contained in the related interest rate swap agreement and interest rates including the notional amount of $15,336, represents an unrealized loss of $1.3 million included in other liabilities as of June 30, 2009. OSUP records changes in the fair value of the swap each period through the statements of operations and changes in net assets ($1.3 million for fiscal year 2009). The swap is settled monthly with net payments or receipts under the swap agreement being reflected as interest expense. The termination date of the swap is September 1, 2018. OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year.

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 $30,818 and $29,349 for the years ended June 30, 2009 and 2008, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2009 are as follows:

Year Ending June 30,	
2010	$ 19,085
2011	15,442
2012	12,435
2013	9,074
2014	6,826
2015-2019	26,868
2020-2024	18,961
2025-2029	14,290
2030-2034	14
2035-2039	13
2040-2044	13
2045-2049	8
Total minimum lease payments	$ 123,029

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.

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, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 97,039	$ 13,067	$ 6,525	$ 103,581
Obligations under annuity and life income agreements	48,898	-	10,054	38,844
Refundable advances for Federal Perkins loans	31,086	-	1,179	29,907
Other non-current liabilities	30,681	24,820	-	55,501
	207,704	$ 37,887	$17,758	227,833
Less: Current portion	10,933			9,828
	$ 196,771			$ 218,005

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

Other non-current liabilities at June 30, 2009 and 2008 consist of the following:

	2009	2008
Amounts due to third-party payers – OSU Health System	$ 22,418	$ 17,429
Advance payments under exclusivity agreement	6,425	-
Interest rate swap – OSU Physicians	1,320	-
Bond premium	25,338	13,252
	$ 55,501	$ 30,681

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, 2009 and 2008 are as follows:

	2009	2008
Educational and general	$ 606,937	$ 613,633
Auxiliary enterprises	11,366	5,056
OSU Health System	363,328	331,488
Loan funds	2,235	-
Unrestricted quasi-endowments	31,515	54,023
Plant	203,553	13,997
	$ 1,218,934	$ 1,018,197

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, 2009 and 2008 are as follows:

	2009	2008
Current operations	$ 312,157	$ 309,652
Loan funds	43,592	44,214
Restricted quasi-endowments	110,441	170,810
Plant	1,932	5,971
	$ 468,122	$ 530,647

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, 2009 and 2008 are summarized as follows:

Year Ended June 30, 2009	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 724,179	$ 116,518	-	-	$ 840,697
Separately budgeted research	265,102	126,931	-	-	392,033
Public service	84,250	35,765	-	-	120,015
Academic support	112,803	20,852	-	-	133,655
Student services	62,685	25,308	-	-	87,993
Institutional support	119,827	57,721	-	-	177,548
Operation and maintenance of plant	44,875	67,222	-	-	112,097
Scholarships and fellowships	4,896	2,999	$ 61,826	-	69,721
Auxiliary enterprises	116,089	98,718	-	-	214,807
OSU Health System	801,357	606,344	-	-	1,407,701
OSU Physicians, Inc.	188,245	73,886	-	-	262,131
Depreciation	-	-	-	$ 221,894	221,894
Total operating expenses	$ 2,524,308	$ 1,232,264	$ 61,826	$ 221,894	$ 4,040,292

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

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

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

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, 2008, OPERS allocated 7.0% 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, 2007 (the date of the system's latest actuarial review) was $12.8 billion. There were 363,503 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, 2008 and 364,076 active contributing participants used in the December 31, 2007 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, 2008, STRS Ohio allocated employer contributions equal to 1.0% 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 $3.7 billion at June 30, 2008.

STRS Ohio expenditures for postemployment health care benefits during the year ended June 30, 2008 were $288.9 million. There were 126,506 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 (entire year)		10.00%	10.00%
University (entire year)		14.00%	14.00%**
Law enforcement staff:			
Plan member (entire year)		10.10%	10.10%
University (entire year)		17.40%	17.40%

** Employer contributions include 3.5% paid to STRS Ohio.*
*** Employer contributions include .77% paid to OPERS.*
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, 2009 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
2007	$ 45,252	$ 110,958	$ 32,726
2008	$ 47,516	$ 122,139	$ 34,830
2009	$ 50,227	$ 132,620	$ 36,924

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 $15,598 and $13,828 for the years ended June 30, 2009 and 2008, respectively.

NOTE 14 — CAPITAL PROJECT COMMITMENTS

At June 30, 2009, the university is committed to future contractual obligations for capital expenditures of approximately $244,240.

These projects are funded by the following sources:

State appropriations	$ 28,175
Internal and other sources	216,065
Total	$ 244,240

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 6. 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 EVENT

The university issued a preliminary offering statement for $241,170 in Fixed Rate General Receipts Bonds, Series 2010A, on January 6, 2010. The proceeds of this bond issue will be used to refund existing bond obligations and to pay costs for the issuance of the Series 2010A bonds. The Series 2010A bonds will have annual principal payments until final maturity on December 1, 2020 with an interest rate of 2.69%.

The Ohio State University

Supplementary Information on the Long-Term Investment Pool

for the Year Ended June 30, 2009

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 2009, 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 $413 million, to $1.66 billion at June 30, 2009. Changes in market value for 2009 are summarized below:

Long-Term Investment Pool Activity

(in thousands)

	Gifted Endowments		Long-Term	
	University	Foundation	Operating	Total
Market value at June 30, 2008	**$ 1,009,335**	**$ 442,853**	**$ 623,665**	**$ 2,075,853**
Net principal additions/(withdrawals)	21,675	29,933	107,063	158,671
Change in market value:				
Realized gains/(losses)	(128,943)	(56,473)	(74,982)	(260,398)
Unrealized gains/(losses)	(113,054)	(49,370)	(64,844)	(227,268)
Income earned	21,220	9,633	13,711	44,564
Distributions	(46,330)	(20,262)	(25,458)	(92,050)
Expenses	(17,447)	(7,921)	(11,275)	(36,643)
Market value at June 30, 2008	**$ 746,456**	**$ 348,393**	**$ 567,880**	**$ 1,662,729**

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, 2009. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($21 million), University Development related expenses ($14 million) and other investment related expenses ($2 million).

Investment Returns and Expenses

Fiscal year 2009 proved challenging as world equity markets were down 25% to 30% and almost every asset class was hit hard by the financial markets meltdown. The investment return for the Long-Term Investment Pool was -23.3% for fiscal year 2009. The annualized investment returns for the three-year and five-year periods were -6% and -0.3%, respectively. These returns —which are net of investment management expenses as defined by Cambridge Associates for its annual survey—are used for comparison purposes with other endowments and various benchmarks. In addition to the $21 million of investment management expenses, which reduced the pool by 1% in fiscal year 2009, the $14 million of Development related expenses and $2 million of other investment related expenses further reduced the pool by 0.8%.

Additional Information

Additional details on university endowments, including balances for individual funds, are available on the Office of Financial Services website at: **http://www.financialservices.ohio-state.edu/endowment/endowment.html**.

Acknowledgements

The 2009 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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2009 Board of Trustees

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

Institutional Highlights 2009

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.

- The 2010 first-year class of 6,607 is **the most academically prepared in the university's history**. Average ACT scores are now 27.5, nearly five points higher than a decade ago, and half of the admitted class graduated in the top 10 percent of their high school classes.

- Ohio State climbed to **18th among the nation's best public universities** in *U.S. News & World Report*'s 2010 edition of "America's Best Colleges," which links first-year student programs and internships to student success. Ohio State is again the state's top university.

- In a comparison of tuition costs to graduate earning power in *SmartMoney* magazine, Ohio State ranks **11th best nationally**, with an average return of 179 percent on tuition investment.

- The Ohio State University Medical Center was named **one of "America's Best Hospitals"** for the 17th consecutive year. One of central Ohio's biggest employers, the medical center is among only 21 hospitals in the country named to *U.S. News & World Report*'s elite Honor Roll.

- Ohio State generates an annual statewide economic impact in excess of $4 billion and partners with more than 240 Ohio-based businesses. Partnering with Battelle, **the university anchors central Ohio's premier research corridor**, a 10,000-acre site with more than $1.2 billion annually in managed research; all four regional hospital systems; and a high-tech incubator.

- In four of the last five years, Ohio State has led the country in the **number of new faculty honored as Fellows** of the American Association for the Advancement of Science.

- Ohio State sports one of the largest and **one of the few self-supporting athletics departments** in the country. Each year, the Department of Athletics transfers approximately $20 million to other university programs.

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