The Ohio State University
(A Component Unit of the State of Ohio)

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009,
and Independent Auditors' Report

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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, 2010 and 2009, 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 University as of June 30, 2010 and 2009, 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.

As discussed in Note 1 to the consolidated financial statements, the University changed its method of accounting for intangible assets due to the implementation of Government Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and retroactively restated beginning net assets for the year ended June 30, 2009.

The Management's Discussion and Analysis on pages 2-14 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 54-55 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

November 8, 2010

Management's Discussion and Analysis for the Year Ended June 30, 2010

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, 2010, with comparative information for the years ended June 30, 2009 and June 30, 2008. 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 63,000 students, 5,800 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 175 undergraduate majors, 133 master's degree programs, 99 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, three comprehensive outpatient care centers and 21 clinics. The System provided services to more than 58,000 adult inpatients and 1,038,000 outpatients during Fiscal Year 2010.

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 14 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 Foundation (a fundraising foundation operating exclusively for the benefit of the university)
- OSU Physicians, Inc. (the central practice group for physician faculty members of the Colleges of Medicine and Public Health)
- Campus Partners for Community Urban Redevelopment (a non-profit organization participating in the redevelopment of neighborhoods adjacent to the main Columbus campus)
- Transportation Research Center (an automotive research and testing facility in East Liberty, Ohio)
- OSU Health Plan (a non-profit organization – formerly known as OSU Managed Health Care Systems -- that administers university health care benefits)

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, 2010, with comparative information as of June 30, 2009. 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, 2010, with comparative information for Fiscal Year 2009. 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, 2010, with comparative information for Fiscal Year 2009. 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) increased $405 million, to $4.72 billion at June 30, 2010, primarily due to investment gains and strong operating results for the OSU Health System. Total university plant debt was stable at $1.35 billion. Total unrestricted and restricted-expendable net assets increased $66 million, to $1.75 billion.

Despite the ongoing challenges associated with the recession in the national and state economies, demand for an Ohio State education remains strong, and student outcomes continue to improve. 63,217 students were enrolled in Autumn 2009, up from 61,568 in Autumn 2008. 92.5% of the freshmen enrolled in Autumn 2008 returned to OSU in Autumn 2009. Over the past five years, four-year graduation rates have increased from 39% to 51%, and six-year graduation rates have increased from 62% to 75%.

The following sections provide additional details on the university's 2010 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Statement of Net Assets

Summary Statement of Net Assets *(in thousands)*	**2010**	**2009**	**2008**
Cash and temporary investments	$ 1,243,943	$ 1,172,896	$ 902,919
Current receivables, inventories and prepaid expenses	572,436	525,105	539,482
Total current assets	1,816,379	1,698,001	1,442,401
Noncurrent notes and pledges receivable	81,424	70,017	70,200
Long-term investment pool	1,887,568	1,662,729	2,075,853
Other long-term investments	64,232	69,894	102,801
Capital assets, net of accumulated depreciation	3,231,134	3,119,928	2,939,626
Total noncurrent assets	5,264,358	4,922,568	5,188,480
Total assets	$ 7,080,737	$ 6,620,569	$ 6,630,881
Accounts payable and accrued expenses	$ 539,560	$ 530,850	$ 520,806
Deferred revenues and deposits	208,579	186,436	184,980
Commercial paper and current portion of bonds, notes and lease obligations	505,842	631,604	516,970
Other current liabilities	11,575	9,828	10,933
Total current liabilities	1,265,556	1,358,718	1,233,689
Noncurrent portion of bonds, notes and lease obligations	848,417	728,641	559,127
Other noncurrent liabilities	246,135	218,005	196,771
Total noncurrent liabilities	1,094,552	946,646	755,898
Total liabilities	$ 2,360,108	$ 2,305,364	$ 1,989,587
Invested in capital assets, net of related debt	$ 1,875,977	$ 1,759,683	$ 1,863,528
Restricted-nonexpendable net assets	1,091,825	868,466	1,228,922
Restricted-expendable net assets	487,237	468,122	530,647
Unrestricted net assets	1,265,590	1,218,934	1,018,197
Total net assets	$ 4,720,629	$ 4,315,205	$ 4,641,294

Total university **cash and temporary investment** balances increased $71 million in 2010, 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** increased $225 million, to $1.89 billion at June 30, 2010, primarily due to a combination of realized and unrealized gains, which totaled $121 million and $125 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 $6 million, to $64 million at June 30, 2010.

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $111 million, to $3.23 billion at June 30, 2010. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 5 years (for computer equipment and software) to 100 years (for certain building components such as foundations).

In 2010, the university implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Under the new standard, the university reported internally generated software with a net book value of $31 million and $29 million at June 30, 2010 and June 30, 2009, respectively.

Major projects completed in 2010 include the William Oxley Thompson Memorial Library renovation, the new Ohio Union and the Student Academic Services Building. In addition, several major construction projects are currently underway or in advanced planning stages, including:

- ProjectOne – The university continues to move forward on a $1 billion Medical Center expansion project known as ProjectOne. ProjectOne activities already underway include the recently completed expansion of the Richard M. Ross Heart Hospital, new Gastrointestinal and MRI facilities, and a faculty office tower. Construction of the new James Cancer Hospital and Solove Research Institute and the Critical Care Center began in Summer 2010 and is expected to be completed in 2014. The university plans to finance the project with a combination of bonds ($925 million) and private gifts ($75 million).

- South High Rises Renovation and Addition – Work is underway on a $172 million project to renovate five student housing facilities in the south campus area and to construct two building additions, which will include approximately 360 new beds. The project is expected to be completed in 2012.

- William H. Hall Complex Expansion – Work is underway on a $51 million project to construct a new suite-style housing facility as part of the William H. Hall housing complex. The new facility will provide approximately 537 new beds and is expected to be completed in 2012.

- Infrastructure Improvements – Various infrastructure projects are underway, including construction of a $58 million electrical substation to meet current and future campus electrical needs, a $73 million south campus central chiller plant to support the Medical Center expansion and a $41 million east regional chiller plant to serve buildings east of the Oval. The electrical substation and south campus chiller projects are expected to be completed in 2012. The east regional chiller project is expected to be completed in 2014.

- Chemical and Bio-molecular Engineering and Chemistry Building – Planning is underway to construct a $121 million facility for the Chemistry and Chemical and Bio-molecular Engineering departments. The building will contain research and teaching laboratories, faculty offices, and seminar rooms. The projected start date for construction is October 2012.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $270 million at June 30, 2010.

Accounts payable and accrued expenses increased $9 million, to $540 million in 2010, primarily due to increases in payables to vendors.

Total university debt, in the form of **commercial paper, bonds, notes and capital lease obligations**, was relatively stable, decreasing $6 million, to $1.35 billion at June 30, 2010. During 2010, the university issued $241 million in bonds, secured by the general receipts of the university. The university used the bond proceeds to refund existing bond obligations.

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 $329 million and $511 million at June 30, 2010 and 2009, respectively.

Other noncurrent liabilities increased $28 million, primarily due to bond premiums associated with the 2010 bond issue.

2008-2009 Highlights: ***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. ***In 2009***, total unrestricted and restricted-expendable net assets increased $138 million, to $1.69 billion. Total university plant debt increased $284 million, to $1.36 billion, primarily due to two 2009 bond issues.

Statement of Revenues, Expenses and Other Changes in Net Assets

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

	2010	2009	2008
Operating Revenues:			
Tuition and fees, net	$ 664,184	$ 622,857	$ 616,650
Grants and contracts	619,873	613,018	601,742
Auxiliary enterprises sales and services, net	204,676	194,862	192,071
OSU Health System sales and services, net	1,692,532	1,578,401	1,460,868
OSU Physicians sales and services, net	309,815	286,490	256,910
Departmental sales and other operating revenues	182,503	161,063	159,704
Total operating revenues	3,673,583	3,456,691	3,287,945
Operating Expenses:			
Educational and general	2,041,362	1,919,678	1,893,145
Auxiliary enterprises	223,704	214,807	220,682
OSU Health System	1,483,573	1,407,701	1,295,850
OSU Physicians	284,720	262,131	230,403
Depreciation	231,744	222,308	213,801
Total operating expenses	4,265,103	4,026,625	3,853,881
Net operating income (loss)	(591,520)	(569,934)	(565,936)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	443,337	497,601	469,162
Federal fiscal stabilization funds	59,234	-	-
Gifts - current use	90,743	77,255	78,675
Net investment income (loss)	323,944	(435,898)	(141,558)
Grants, interest expense and other non-operating	(2,264)	2,884	(7,725)
Income (loss) before other revenues, expenses gains or losses	323,474	(428,092)	(167,382)
State capital appropriations	33,042	47,227	72,837
Private capital gifts	15,545	18,960	6,754
Additions to permanent endowments	33,363	35,816	59,108
Increase (decrease) in net assets	405,424	(326,089)	(28,683)
Net assets - beginning of year	4,315,205	4,641,294	4,669,977
Net assets - end of year	$ 4,720,629	$ 4,315,205	$ 4,641,294

Net **tuition and fees** increased $41 million, to $664 million in 2010, primarily due to increased undergraduate enrollments. The university extended its freeze of undergraduate instructional and general fees for a third year, through Spring Quarter of 2010.

Operating **grant and contract revenues** increased $7 million, to $620 million in 2010, primarily due to increases in federally-funded research grants and contracts, which were partially offset by decreases in state grants and contracts. Revenues for sponsored research programs administered by the Office of Sponsored Programs (formerly known as the OSU Research Foundation) increased $20 million, to $423 million.

Educational and general expenses increased 6.3%, to $2.04 billion in 2010. Additional details are provided below.

Educational and General Expenses *(in thousands)*

	2010	2009	2008
Instruction and departmental research	$ 869,418	$ 840,697	$ 817,146
Separately budgeted research	419,982	392,033	391,987
Public service	118,585	120,015	121,565
Academic support	140,255	132,912	135,720
Student services	87,603	87,993	86,829
Institutional support	191,532	164,210	153,531
Operation and maintenance of plant	109,440	112,097	115,107
Scholarships and fellowships	104,547	69,721	71,260
Total	$ 2,041,362	$ 1,919,678	$ 1,893,145

Total **instructional and departmental research** expenses increased $29 million in 2010, 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 increased $28 million, reflecting increases in federally-funded research grants. **Institutional support** increased $27 million, primarily due to increased expenditures for investment management, information technology and fundraising and central accruals for employee health care costs. **Scholarship and fellowship** expenses increased $35 million, reflecting increased central and departmental funding for undergraduate scholarships.

Sales and service revenues of the university's **Auxiliary Enterprises** increased $10 million, to $205 million in 2010, primarily due to increases in Housing, Food Service and Event Center and Fawcett Center revenues. Auxiliary expenses increased $9 million.

The **Ohio State University Health Care System** continued its planned growth during Fiscal Year 2010 with the opening of the Eye and Ear Institute on Olentangy River Road, the opening of Carepoint in Gahanna, and the start of construction on two projects - an outpatient cancer facility on Olentangy River Road and an expanded Electrophysiology lab on the second floor of the Ross Heart Hospital. Means Hall was demolished to allow space for future ProjectOne hospital facilities construction.

Health System adult inpatient admissions increased 4.9% over the prior year, while outpatient volume grew by 6.0%. Consolidated Health System Total Operating Revenues increased $114 million (7.2%) due to volume increases along with selective rate increases. Expenses for the consolidated Health System (excluding depreciation, interest and interfund transfers) increased $76 million (5.4%). Salaries and benefits increased 6.0% due to increased patient activity and a competitive labor market. Supplies increased 4.1% due to volume, medical advances, inflation and more intensive patient care services. Services increased 17.6% primarily due to the Medicaid program enacting a hospital franchise fee which totaled $18 million in its first year. The Health System's Excess of Revenue over Expense for 2010 was $126.5 million. After investing $88.9 million in research and education and receiving $2.1 million in contributions for capital acquisitions, the change in net assets was $39.7 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 FY2011 revenues to increase by 7.9% 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 its clinical facilities in the next several years. 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 College of Medicine and Public Health, continued to grow in 2010. Total operating revenues grew from $286 million to $310 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 $262 million to $285 million.

OSUP is the single member of 17 limited liability companies ("LLCs"). As of June 30, 2010, only 15 of the limited liability companies were active. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no 2010 activity.

The following table lists the LLCs that were included in OSUP's financial statements as of June 30, 2010 and 2009:

Practice Plan	2010	2009
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 Oncology, LLC ("Rad Onc")	X	X
OSU Radiology, LLC ("Radiology")	X	X
OSU Surgery, LLC ("Surgery")	X	X
OSU Urology, LLC ("Urology")	X	X

State share of instruction and line-item appropriations declined $54 million, to $443 million in 2010, due to state budget cuts. To offset this decrease in state funding, the Ohio Board of Regents allocated $59 million in **federal fiscal stabilization funds** to the university. These funds were provided by the federal government under the American Recovery and Reinvestment Act of 2009.

Non-endowment gifts to the university (including gifts for current use and gifts to capital projects) increased $11 million, to $107 million in 2010. New gift **additions to permanent endowments** decreased $2 million, to $33 million. With the economy beginning to rebound, University Development expects that gift revenues will increase by several percentage points in 2011. During 2010 a new record of 144,016 donors made gifts to the university; the next highest year was 2007 at 121,177.

University investments yielded $324 million of **net investment income** in 2010, recovering a significant portion of the $436 million net investment loss experienced in 2009. The net investment income figure includes $67 million of interest and dividend income and $257 million net appreciation in the fair market value of university investments.

The university's Long Term Investment Pool finished a strong year in 2010. Equity markets had bottomed out approximately three months before the fiscal year began and experienced a strong upsurge throughout much of the fiscal year. These gains were partially reversed over the last two months of the year when markets retrenched. The Long-Term Investment

Pool finished the fiscal year with an investment return of 15.5%, which exceeds university benchmarks and places it among the top of its peer group.

2008-2009 Highlights: ***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 $243 million, to $3.85 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. ***In 2009***, the university's investment portfolio was hit hard by the meltdown in the financial markets, resulting in a $436 million net investment loss. University operating results were stable, with growth in operating revenues and state support offsetting similar increases in operating expenses.

Statement of Cash Flows

University Cash Flows Summary *(in thousands)*	**2010**	**2009**	**2008**
Net cash flows from operating activities	$ (356,277)	$ (301,434)	$ (330,937)
Net cash flows from noncapital financing activities	663,725	647,253	649,100
Capital appropriations and gifts for capital projects	41,334	70,227	75,128
Proceeds from issuance of bonds and notes payable	337,113	427,138	10,038
Payments for purchase and construction of capital assets	(332,448)	(394,788)	(324,134)
Principal and interest payments on capital debt	(385,506)	(184,192)	(108,915)
Net cash flows from investing activities	(24,130)	61,882	84,949
Net increase (decrease) in cash	$ (56,189)	$ 326,086	$ 55,229

Total university cash and cash equivalents decreased $56 million in 2010. Net cash flows from operating activities decreased $55 million, with increases in payments for wages, benefits and supplies and services more than offsetting increased receipts from sales and services and tuition. Net cash flows from noncapital financing activities were relatively stable in 2010, with receipts of federal fiscal stabilization funds offsetting decreases in state appropriations. Net cash used for capital financing activities was $340 million, reflecting capital expenditures and use of bond proceeds to refund existing debt. Total cash used by investing activities was $24 million, primarily due to net purchases of temporary investments.

Subsequent Events

Subsequent to June 30, certain transactions and events occurred that are financially significant to the university. In September 2010, the university completed three bond offerings, totaling $893 million. Also in September, a tornado struck the university's Ohio Agricultural Research and Development Center campus in Wooster, causing significant damage to buildings and grounds. Additional details on these subsequent events are provided in the notes to the financial statements.

Economic Factors That Will Affect the Future

As Fiscal Year 2010 drew to a close, the nation appeared to be gradually starting to recover from its deepest recession in 50 years. Because of strong financial support from the Governor and the General Assembly, the receipt of federal stimulus funding under the American Recovery and Reinvestment Act (ARRA), and prudent fund management and planning, The Ohio State University was able to continue to improve its academic standing and maintain its affordability to Ohio residents. However, the economic upheavals of recent years and continuing weakness in Ohio's economy will make it more difficult to continue this progress.

In 2010, the university was able to continue its freeze on in-state undergraduate tuition (which began in Autumn Quarter 2006) through Spring Quarter. In Summer Quarter 2010, however, undergraduate instructional and general fees were increased 3.1%, followed by an additional increase of 3.4% in Autumn Quarter 2010. These tuition increases are a necessary component of the university's strategy to address possible shortfalls in the next few years. Student financial aid will be increased proportionally so that access will be maintained for qualified students.

The university's Fiscal Year 2011 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 2011 budget also emphasizes the importance of remaining fiscally prudent in the current uncertain environment, including continued support for efficiency savings in the following areas:

- Energy Sustainability
- Strategic Purchasing
- Transition to Work (workers compensation)
- Your Plan for Health (employee health care)

- Enterprise-Wide Systems
- Business Process Streamlining

Although the university budget for 2011 is relatively stable, a great deal of uncertainty exists regarding the State of Ohio's budget for the next (2012-2013) biennium. In September 2010, the State of Ohio announced that the June 2011 monthly State Share of Instruction (SSI) payment for state-supported colleges and universities would “lapse” or be deferred into the next biennium, requiring re-appropriation by the General Assembly. Approximately $25 million of the university's 2011 SSI allocation is subject to this deferral.

In addition, approximately 15.5% of the total appropriations for SSI consist of one-time federal ARRA funding. Ohio State is expected to receive approximately $60 million of ARRA funds as part of its FY2011 SSI allocation. If the state economy does not recover sufficiently to generate additional General Revenue Funds to replace these ARRA funds, the State of Ohio will face significant challenges in maintaining current levels of SSI funding in the 2012-2013 biennium.

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.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET ASSETS

June 30, 2010 and June 30, 2009
(in thousands)

	Jun-10	Jun-09
ASSETS:		
Current Assets:		
Cash and cash equivalents (including bond proceeds restricted for capital expenditures of $56,230 and $111,845, respectively)	$ 656,415	$ 712,604
Temporary investments	587,528	460,292
Accounts receivable, net	441,468	408,539
Notes receivable -current portion, net	13,533	12,816
Pledges receivable - current portion, net	22,912	23,697
Accrued interest receivable	18,856	16,684
Inventories and prepaid expenses	75,667	63,369
Total Current Assets	1,816,379	1,698,001
Noncurrent Assets:		
Notes receivable, net	57,984	58,761
Pledges receivable, net	23,440	11,256
Long-term investment pool	1,887,568	1,662,729
Other long-term investments	64,232	69,894
Capital assets not being depreciated	347,152	460,302
Capital assets being depreciated, net	2,883,982	2,659,626
Total Noncurrent Assets	5,264,358	4,922,568
Total Assets	$ 7,080,737	$ 6,620,569
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	$ 539,560	$ 530,850
Deposits and deferred revenues	208,579	186,436
Commercial paper and current portion of bonds, notes and leases payable	505,842	631,604
Compensated absences - current portion	7,788	6,525
Obligations under annuity and life income agreements-current portion	3,787	3,303
Total Current Liabilities	1,265,556	1,358,718
Noncurrent Liabilities:		
Bonds, notes and leases payable	848,417	728,641
Compensated absences	101,200	97,056
Obligations under annuity and life income agreements	34,263	35,541
Refundable advances for Federal Perkins loans	28,955	29,907
Other noncurrent liabilities	81,717	55,501
Total Noncurrent Liabilities	1,094,552	946,646
Total Liabilities	2,360,108	2,305,364
Net Assets:		
Invested in capital assets, net of related debt	1,875,977	1,759,683
Restricted:		
Nonexpendable	1,091,825	868,466
Expendable	487,237	468,122
Unrestricted	1,265,590	1,218,934
Total Net Assets	4,720,629	4,315,205
Total Liabilities and Net Assets	$ 7,080,737	$ 6,620,569

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

June 30, 2010 and June 30, 2009
(in thousands)

	Jun-10	Jun-09
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of $121,229 and $116,357, respectively)	$ 664,184	$ 622,857
Federal grants and contracts	322,157	283,484
State grants and contracts	43,524	76,896
Local grants and contracts	20,801	23,680
Private grants and contracts	233,391	228,958
Sales and services of educational departments	115,766	101,848
Sales and services of auxiliary enterprises (net of scholarship allowances of $15,791 and $15,118, respectively)	204,676	194,862
Sales and services of the OSU Health System (net of charity care of $196,896 and $164,132, respectively)	1,692,532	1,578,401
Sales and services of OSU Physicians, Inc., (net of charity care of $7,678 and $3,182, respectively)	309,815	286,490
Other operating revenues	66,737	59,215
Total Operating Revenues	3,673,583	3,456,691
Operating Expenses:		
Educational and General:		
Instruction and departmental research	869,418	840,697
Separately budgeted research	419,982	392,033
Public service	118,585	120,015
Academic support	140,255	132,912
Student services	87,603	87,993
Institutional support	191,532	164,210
Operation and maintenance of plant	109,440	112,097
Scholarships and fellowships	104,547	69,721
Auxiliary enterprises	223,704	214,807
OSU Health System	1,483,573	1,407,701
OSU Physicians, Inc.	284,720	262,131
Depreciation	231,744	222,308
Total Operating Expenses	4,265,103	4,026,625
Operating Loss	(591,520)	(569,934)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	443,337	497,601
Federal fiscal stabilization funds	59,234	-
Federal non-exchange grants	55,203	34,184
State non-exchange grants	8,086	12,783
Gifts	90,743	77,255
Net investment income (loss)	323,944	(435,898)
Interest expense on plant debt	(49,993)	(36,613)
Other non-operating revenues(expenses)	(15,560)	(7,470)
Net Non-operating Revenue (Expense)	914,994	141,842
Income (Loss) before Other Revenues, Expenses, Gains or Losses	323,474	(428,092)
State capital appropriations	33,042	47,227
Private capital gifts	15,545	18,960
Additions to permanent endowments	33,363	35,816
Increase (Decrease) in Net Assets	405,424	(326,089)
Net Assets - Beginning of Year	4,315,205	4,641,294
Net Assets - End of Year	$ 4,720,629	$ 4,315,205

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

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 572,719	$ 534,269
Grant and contract receipts	612,655	626,785
Receipts for sales and services	2,338,983	2,185,979
Payments to or on behalf of employees	(2,000,832)	(1,907,124)
University employee benefit payments	(524,650)	(523,029)
Payments to vendors for supplies and services	(1,328,157)	(1,209,741)
Payments to students and fellows	(96,022)	(61,826)
Student loans issued	(7,347)	(7,188)
Student loans collected	7,961	7,946
Student loan interest and fees collected	1,119	971
Other receipts (payments)	67,294	51,524
Net cash provided (used) by operating activities	(356,277)	(301,434)
Cash Flows from Noncapital Financing Activities:		
State share of instruction and line-item appropriations	443,337	497,601
Federal fiscal stabilization funds	59,234	0
Non-exchange grant receipts	63,289	46,967
Gift receipts for current use	79,344	74,043
Additions to permanent endowments	33,363	35,816
Drawdowns of federal direct loan proceeds	386,000	338,500
Disbursements of federal direct loans to students	(399,608)	(343,000)
Disbursement of loan proceeds to related organization	(760)	0
Repayment of loans to related organization	0	1,016
Amounts received for annuity and life income funds	3,072	647
Amounts paid to annuitants and life beneficiaries	(3,866)	(4,158)
Agency funds receipts	5,781	5,354
Agency funds disbursements	(5,461)	(5,533)
Net cash provided (used) by noncapital financing activities	663,725	647,253
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	337,113	427,138
State capital appropriations	25,789	51,267
Gift receipts for capital projects	15,545	18,960
Payments for purchase or construction of capital assets	(332,448)	(394,788)
Principal payments on capital debt and leases	(320,761)	(138,935)
Interest payments on capital debt and leases	(64,745)	(45,257)
Net cash provided (used) by capital financing activities	(339,507)	(81,615)
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	(118,117)	39,941
Proceeds from sales and maturities of long-term investments	1,588,757	930,588
Investment income, net of related fees	65,846	73,652
Purchases of long-term investments	(1,560,616)	(982,299)
Net cash provided (used) by investing activities	(24,130)	61,882
Net Increase (Decrease) in Cash	(56,189)	326,086
Cash and Cash Equivalents - Beginning of Year	712,604	386,518
Cash and Cash Equivalents - End of Year	$ 656,415	$ 712,604

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Cont'd

Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	$ (591,520)	$ (569,934)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:		
Depreciation expense	231,744	222,308
Changes in assets and liabilities:		
Accounts receivable, net	(12,996)	15,691
Notes receivable, net	1,820	(426)
Accrued interest receivable	(555)	(425)
Inventories and prepaid expenses	(12,298)	(260)
Accounts payable and accrued liabilities	(405)	11,383
Deposits and deferred credits	21,750	2,133
Compensated absences	5,407	6,542
Refundable advances for federal Perkins loans	(952)	(1,179)
Other noncurrent liabilities	1,728	12,733
Net cash provided (used) by operating activities	$ (356,277)	$ (301,434)
Non Cash Transactions:		
Equipment	$ 2,150	$ 8,032
Capital Lease	(2,150)	(8,032)

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

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

The university is governed by a Board of Trustees which is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the university. Trustees are appointed by the governor, with the advice and consent of the state Senate. In 2005, the Ohio General Assembly voted to expand the board from 11 to 17 members. The standard term for voting members of the board is nine years. However, as part of the transition to a larger board membership, the additional trustees appointed in 2005 and 2006 will serve terms ranging from four to eight years. The board also includes two non-voting student trustees who are appointed to two-year terms.

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

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

Basis of Presentation

The accompanying financial statements present the accounts of the following entities:

The Ohio State University and its hospitals and clinics;
The Ohio State University Foundation, a not-for-profit fundraising organization operating exclusively for the benefit of The Ohio State University;

Two separate statutory entities for which the university has special responsibility

- Ohio Agricultural Research and Development Center
- Ohio Supercomputer Center

Thirteen legally independent corporations engaged in activities related to the university

- The Ohio State University Research Foundation
- The Ohio State University Student Loan Foundation, Inc.
- Transportation Research Center of Ohio, Inc.

- Campus Partners for Community Urban Redevelopment, Inc.
- Reading Recovery and Early Literacy, Inc.
- Ohio State University Retirees Association
- OSU Managed Health Care Systems, Inc.
- The Ohio State University Physicians, Inc.
- Prologue Research International, Inc.
- Oval Limited
- Adria Kravinsky Foundation
- Dental Faculty Practice Association, Inc.
- OSU China Gateway, LLC

Component units (legally separate organizations for which the university is financially accountable) comprise, in part, the university's reporting entity. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* defines financial accountability. The criteria for determining financial accountability include the following circumstances:

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

The legally separate organizations listed above meet the financial accountability criteria set forth in GASB Statement No. 14. In addition, these organizations provide services entirely, or almost entirely, to the university or otherwise exclusively, or almost exclusively, benefit the university. Therefore, the transactions and balances for these organizations have been blended with those of the university.

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

Basis of Accounting

The financial statements of the university have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The university is reporting as a special purpose government engaged in business type activities (BTA). Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, the university presents Management's Discussion and Analysis; a Consolidated Statement of Net Assets; a Consolidated Statement of Revenues, Expenses and Other Changes in Net Assets; a Consolidated Statement of Cash Flows; and Notes to the Financial Statements.

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

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

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

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

- **Restricted - expendable:** Net assets whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time. These resources include the current restricted funds, student loan funds, certain plant funds, annuity and life income funds, and restricted funds internally designated to function as endowments (restricted quasi-endowments).

- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. These resources include educational and general funds, auxiliary funds, hospitals funds, certain plant funds, and unrestricted quasi-endowments. Substantially all unrestricted net assets are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment.

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

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

Cash and Investments

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts and include bond proceeds restricted for capital expenditures.

Investments are carried at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The fair value of private equity investments is based on estimated current values. The weighted average method is used for purposes of determining gains and losses on the sale of investments. The specific identification method is used for purposes of determining gains and losses on the sale of gifted securities.

The university holds investments in limited partnerships, private equity and other investments, which are carried at estimated fair value provided by the management of these funds. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Methods for determining estimated fair values include discounted cash flows and estimates provided by general partners. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting. As of June 30, 2010, the university has made commitments to limited partnerships totaling $496,000 that have not yet been funded. In the prior fiscal year, the university had made commitments to limited partnerships totaling $368,000 that had not yet been funded as of June 30, 2009.

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, 2010 are $4,280 and $14,627, respectively. The carrying and market values of real estate at June 30, 2009 are $4,177 and $14,629, 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 4,400 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. For fiscal year 2009, annual distribution was based on the average market value per share of the Long Term Investment Pool over the previous five year period multiplied by a stated rate. For funds established prior to June 30, 2004, the stated rate was 4.5%. For funds established after June 30, 2004, the stated rate was 4%. To minimize volatility in the year-to-year distribution amounts, a "collar" was also in place to ensure that distribution per share did not increase greater than 3% a year or decrease more than 1% a year.

After the significant market decline in fiscal year 2009, the Board of Trustees revised the distribution policy. In fiscal year 2010, the two pools (named funds established before or after the June 30, 2004 cutoff date) were combined into one, resulting in one payout rate for all funds. The collar was eliminated and replaced with a temporary one year floor limiting the total distribution decline to 3% for any college or area. Based on these two methods, undistributed gains were transferred from the Long Term Investment Pool to current funds. These transfers total $99,966 and $92,050 in fiscal years 2010 and 2009, respectively.

Beginning in fiscal year 2011, annual distribution per share will equal 4.25% of the average market value per share of the Long Term Investment Pool over the most recent seven year period.

At June 30, 2009, the market value of the university's gifted endowments was $1,094,849, which is $44,571 below the historical dollar value of $1,139,420, due to the unusually adverse market conditions in Fiscal year 2009. At June 30, 2010, the market value of the university's gifted endowments was $1,239,653, which is $53,026 above the historical dollar value of $1,186,627. Although the market value of the gifted endowments in total exceeds the historical cost at June 30, 2010, there are 2,790 named funds that remain underwater. The market value of these underwater funds at June 30, 2010 is $681,138, which is $166,892 below the historical dollar value of $848,030.

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

Type of Asset	Estimated Useful Life
Improvements other than buildings	20 years
Buildings	10 to 100 years
Moveable equipment, software 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. $10,584 and $6,916 of interest was capitalized in the years ended June 30, 2010 and 2009, 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, grants, contracts 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.

Implementation of GASB No. 51, Intangible Assets

The university adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. As a result of the implementation of GASB No. 51, the university recorded internally generated computer software as capital assets. Beginning net assets and capital assets were restated to report retroactively intangible assets created prior to July 1, 2009. Changes to Net Assets – Beginning of Year are as follows:

	July 1, 2008
Net Assets – Beginning of Year, as previously reported	$ 4,625,701
Effect of GASB 51 implementation	15,593
Net Assets – Beginning of Year, as restated	$ 4,641,294

In addition, the university's financial statements as of and for the year ended June 30, 2009 have been restated as follows:

	Consolidated Statements of Net Assets		
	As Previously Reported	Adjustment	As Currently Reported
Assets			
Capital assets not being depreciated	$ 432,492	$ 27,810	$ 460,302
Capital assets being depreciated, net	2,658,176	1,450	2,659,626
Liabilities and Net Assets			
Invested in capital assets, net of related debt	1,730,423	29,260	1,759,683

	Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets		
	As Previously Reported	Adjustment	As Currently Reported
Operating Expenses			
Academic support	$ 133,655	$ (743)	$ 132,912
Institutional support	177,548	(13,338)	164,210
Depreciation	221,894	414	222,308

	Consolidated Statements of Cash Flows		
	As Previously Reported	Adjustment	As Currently Reported
Cash Flows from Operating Activities			
Payments to or on behalf of employees	$ (1,910,303)	$ 3,179	$ (1,907,124)
Payments to vendors for supplies and services	(1,220,643)	10,902	(1,209,741)
Cash Flows from Capital Financing Activities			
Payments for purchase or construction of capital assets	(380,707)	(14,081)	(394,788)
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities			
Operating loss	(583,601)	13,667	(569,934)
Depreciation expense	221,894	414	222,308

Newly Issued Accounting Pronouncements

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement amends provisions in Statements No. 45 and 43 related to measurement and actuarial valuation of other post employment benefits. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus.* This Statement amends existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

University management has not yet determined the impact that implementation of GASB Statements No. 57 and 59 will have on the university's financial statements.

Other

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

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2010, the carrying amount of the university's cash and cash equivalents for all funds is $656,415 as compared to bank balances of $803,024. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $7,504 is covered by federal deposit insurance and $795,520 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, 2010 and 2009 are as follows:

	2010	2009
Temporary Investments	$ 587,528	$ 460,292
Long-Term Investment Pool:		
Gifted Endowment - university	828,833	746,456
Gifted Endowment – OSU Foundation	410,820	348,393
Operating Endowment	647,915	567,880
Total Long-Term Investment Pool	1,887,568	1,662,729
Other Long-Term Investments	64,232	69,894
Total Investments	$ 2,539,328	$ 2,192,915

Total university investments by investment type at June 30, 2010 are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 21	$ 312,446	$ 53	$ 312,520
Equity mutual funds	40,959	47,361	19,277	107,597
U. S. government obligations	76,338	6,451	3,968	86,757
U. S. government agency obligations	96,552	594	-	97,146
Repurchase agreements	87,996	1,000	-	88,996
Corporate bonds and notes	146,887	76,973	286	224,146
Bond mutual funds	119,811	119,852	22,218	261,881
International bonds	11	555	-	566
Real estate	146	-	3,899	4,045
Partnerships and hedge funds	-	1,242,427	-	1,242,427
Cash and cash equivalents	-	79,909	-	79,909
Other	18,807	-	14,531	33,338
Total	$ 587,528	$ 1,887,568	$ 64,232	$ 2,539,328

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

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2010, the university realized a net gain of $123,540 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 appreciation in the fair value of investments during the year ended June 30, 2010, was $256,843. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized appreciation during the year on investments was $133,303.

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	$ 21,218	$ 9,118	$ 30,336
Long-Term Investment Pool	45,690	245,919	291,609
Other Long-Term Investments	193	1,806	1,999
Total 2010	$ 67,101	$ 256,843	$ 323,944
Total 2009	$ 71,203	$ (507,101)	$ (435,898)

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, 2010 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	$ 86,757	$ 21,041	$ 57,516	$ 1,750	$ 6,450
U. S. agency obligations	97,146	12,172	61,079	15,697	8,198
Repurchase agreements	88,996	88,996	-	-	-
Corporate bonds	224,146	21,937	136,166	54,459	11,584
Bond mutual funds	261,881	67,191	103,534	68,266	22,890
International bonds	566	-	11	555	-
Total	$ 759,492	$ 211,337	$ 358,306	$ 140,727	$ 49,122

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

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, 2010 are as follows:

Credit Rating (S&P)	Total	U. S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	International Bonds
AAA	$ 473,610	$ 183,709	$ 88,996	$ 43,619	$ 157,286	-
AA	50,390	-	-	36,331	14,059	-
A	159,440	-	-	90,350	69,090	-
BBB	69,248	194	-	51,156	17,343	$ 555
BB	3,489	-	-	1,467	2,022	-
B	426	-	-	195	231	-
CCC	1,314	-	-	-	1,314	-
CC	-	-	-	-	-	-
C	-	-	-	-	-	-
Not Rated	1,575	-	-	1,028	536	11
Total	$ 759,492	$ 183,903	$ 88,996	$ 224,146	$ 261,881	$ 566

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

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, 2010, the university's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	International Bonds	Private Equity
Australian dollar	$ 2,339	$ 928	$ 522	$ 1,311	-	$ 21,917
Brazilian real	5,195	591	8,985	1	-	-
Canadian dollar	8,621	772	8,179	-	-	-
Chilean peso	-	60	-	-	-	-
Chinese yuan	-	708	-	-	-	-
Columbian peso	-	7	-	-		
Czech Republic koruna	811	15	-	-	-	-
Danish krone	966	129	-	-	-	-
Egyptian pound	806	7	-	-	-	-
Euro	31,153	3,503	14,614	-	-	12,632
Great Britain pound sterling	17,570	2,370	4,606	-	-	-
Hong Kong dollar	6,073	335	-	-	-	-
Hungarian forint	172	15	-	-	-	-
Indian rupee	2,600	367	-	-	-	-
Indonesian rupiah	3,489	90	-	-	-	-
Israeli shekel	524	103	-	-	$ 11	-
Japanese yen	20,037	2,585	2,840	-	-	-
Jordanian dinar	-	-	-	-	-	-
Malaysian ringgit	192	128	-	-	-	-
Mexican peso	1,011	174	3,438	-	555	-
Moroccan dirham	-	1	-	-	-	-
New Taiwan dollar	5,947	391	-	-	-	-
New Zealand dollar	183	17	-	-	-	-
Norwegian krone	1,377	90	-	-	-	-
Peruvian nuevo sol	-	21	-	-	-	-
Phillippine peso	-	15	-	-	-	-
Polish zloty	159	45	225	-	-	-
Russian ruble	-	247	-	-	-	-
Singapore dollar	945	210	-	-	-	-
South African rand	7,266	287	-	-	-	-
South Korean won	11,744	516	-	-	-	-
Swedish krona	3,240	329	-	-	-	-
Swiss franc	4,289	908	-	-	-	-
Thailand bhat	1,828	51	-	-	-	-
Turkish lira	1,273	52	-	-	-	-
Other currencies	-	-	-	-	-	-
Total	$ 139,810	$ 16,067	$ 43,409	$ 1,312	$ 566	$ 34,549

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 krone	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

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2010 and 2009 consist of the following:

	2010	2009
Patient receivables – OSU Health System	$ 702,655	$ 714,857
Patient receivables – OSU Physicians, Inc.	96,309	87,318
Grant and contract receivables	75,786	67,734
Tuition and fees receivable	42,464	39,713
Receivables for departmental and auxiliary sales and services	81,441	64,309
State and federal receivables	27,958	7,098
Other receivables	1,241	-
	1,027,854	981,029
Less: Allowances for doubtful accounts	586,386	572,490
	$ 441,468	$ 408,539

Notes receivable consist primarily of Perkins Loans and are net of an allowance for doubtful accounts of $18,050 at June 30, 2010 and $17,450 at June 30, 2009. 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 $54,464 in non-endowment pledges receivable at June 30, 2010 and a related allowance for doubtful accounts of $8,112. The university recorded $41,044 in non-endowment pledges receivable and a related allowance for doubtful accounts of $6,091 at June 30, 2009.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 74,118	$ 70	$ 262	$ 73,926
Construction in progress	386,184	(112,958)	-	273,226
Total non depreciable assets	460,302	(112,888)	262	347,152
Capital assets being depreciated:				
Improvements other than buildings	279,732	2,416	152	281,996
Buildings and fixed equipment	3,607,824	333,440	2,105	3,939,159
Movable equipment, furniture and software	900,585	137,173	115,039	922,719
Library books	162,335	2,449	1,772	163,012
Total	4,950,476	475,478	119,068	5,306,886
Less: Accumulated depreciation	2,290,850	231,744	99,690	2,422,904
Total depreciable assets, net	2,659,626	243,734	19,378	2,883,982
Capital assets, net	$ 3,119,928	$ 130,846	$ 19,640	$ 3,231,134

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	307,358	78,826	-	386,184
Total non depreciable assets	356,235	104,903	836	460,302
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, furniture and software	847,356	116,039	62,810	900,585
Library books	164,543	3,155	5,363	162,335
Total	4,730,123	307,264	86,911	4,950,476
Less: Accumulated depreciation	2,146,732	222,308	78,190	2,290,850
Total depreciable assets, net	2,583,391	84,956	8,721	2,659,626
Capital assets, net	$ 2,939,626	$ 189,859	$ 9,557	$ 3,119,928

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, 2010 and 2009 consist of the following:

	2010	2009
Payables to vendors for supplies and services	$ 194,017	$ 175,491
Accrued compensation and benefits	127,462	118,204
Retirement system contributions payable	38,131	47,514
Self-insurance accruals:		
Medical malpractice	118,863	125,938
Employee health insurance	25,950	22,539
Current portion of amounts due to third-party payers – OSU Health System	18,278	21,988
Other accrued expenses	16,859	19,176
	$ 539,560	$ 530,850

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 Berkley Medical Excess Underwriters (rated A+ by A.M. Best). Above that, Oval Limited cedes the remaining $20 million of risk to Endurance Specialty Insurance Ltd. (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, 2010. 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 $5,443 and $7,458 during the years ended June 30, 2010 and 2009, 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, 2010 of the anticipated future payments on gross claims is estimated at its present value of $81,770 discounted at an estimated rate of 3.0% (university funds) and an additional $37,093 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 $159,327 are more than the recorded liability at June 30, 2010, and the surplus of $40,464 is included in unrestricted net assets.

The university is also self-insured for employee health insurance. As of June 30, 2010, $25,950 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, 2008 result from the following activities:

	Malpractice		Health	
	2010	2009	2010	2009
Liability at beginning of fiscal year	$ 125,938	$ 116,776	$ 22,539	$ 22,318
Current year claims, changes in estimates	(3,939)	11,777	214,048	206,301
Claim payments	(3,136)	(2,615)	(210,637)	(206,080)
Balance at fiscal year end	$ 118,863	$ 125,938	$ 25,950	$ 22,539

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, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series I	$50,000	-	$50,000	-	-
Series J	-	$121,000	-	$121,000	$121,000
Notes:					
Transportation Research Center - Capital One Funding Corporation, due through 2014	1,453	-	252	1,201	252
OSU Physicians - Fifth Third Note, due through 2012	1,792	-	182	1,610	196
OSU Physicians – Fifth Third Note, due through 2039	15,389	3,154	18,543	-	-
OSU Physicians – Fifth Third Note, due through 2035	-	17,636	196	17,440	410
Campus Partners - ESIC	11,233	-	400	10,833	400
Campus Partners - UDCDE Note A	22,603	-	230	22,373	249
Campus Partners - UDCDE Note B	10,376	-	-	10,376	-
Campus Partners – Mortgage Payable	424	-	13	411	13
Campus Partners – CCF Loan, City of Columbus	125	-	-	125	-
Adria Kravinsky Foundation – Notes Payable	698	-	698	-	-
Clifton Holding LLC	1,726	-	820	906	906
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	2,920	-	2,920	-	-
2002A, due serially through 2031	105,855	-	39,755	66,100	8,190
2003B, due serially through 2033	149,210	-	60,330	88,880	6,860
2005A, due serially through 2035	229,370	-	13,730	215,640	17,385
2008A, due serially through 2028	217,595	-	12,090	205,505	12,400
2010A, due serially through 2020	-	241,170	-	241,170	2,080
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	29,760	-	11,350	18,410	18,410
1999B1, due serially through 2029	45,200	-	29,700	15,500	15,500
2001, due serially through 2032	76,950	-	20,410	56,540	56,540
2003C, due serially through 2031	101,530	-	43,925	57,605	57,605
2005B, due serially through 2035	129,990	-	51,255	78,735	78,735
2008B, due serially through 2028	127,770	-	25,535	102,235	102,235
Capital Lease Obligations	28,276	2,150	8,762	21,664	6,476
	$1,360,245	$385,110	$381,096	$1,354,259	$505,842

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 obligations are generally callable by the university, bear interest at fixed and variable rates ranging from 0% to 6% and mature at various dates through 2036. Maturities and interest on debt obligations for the next five years and in five-year periods are as follows:

	Commercial Paper, Bonds and Notes Payable		Capital Leases and Certificates of Participation	
	Principal	Interest	Principal	Interest
2011	$ 499,366	$ 40,446	$ 6,476	$ 821
2012	67,196	37,851	5,623	576
2013	77,046	33,848	4,387	367
2014	57,792	30,751	2,441	208
2015	59,740	28,003	845	117
2016-2020	270,955	99,365	1,892	140
2021-2025	159,770	52,306	-	-
2026-2030	103,420	19,802	-	-
2031-2035	26,530	2,639	-	-
2034-2039	10,780	15	-	-
	$1,332,595	$ 345,026	$ 21,664	$ 2,229

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 $136,500 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, 2010 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	2.231%
1999 B1	12%	2.006%
2001	12%	1.789%
2003 C	12%	1.995%
2005 B	12%	2.099%
2008 B	12%	0.808%

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 $329,025 and $511,200 at June 30, 2010 and 2009, 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, 2010 are $53,932 and $21,664 respectively. The original cost and lease obligations related to these capital leases as of June 30, 2009 are $61,074 and $28,275 respectively.

Interest Rate Swap Agreement

On January 6, 2009, OSU Physicians, Inc. (OSUP) entered into an interest rate swap (the "swap") agreement. The swap is used to offset the variable interest rate on a portion of the 2010 bond financing obtained for the ambulatory facility in the amount of $17,440. Under the agreement, OSUP pays a fixed rate of 4.09% to the bank and receives 30-day BMA 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 4.09% and the 30-day BMA 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 $14,966, represents an unrealized loss of $1,800 included in other liabilities as of June 30, 2010. OSUP records changes in fair value of the swap each quarter through the statements of operations and changes in net assets ($517 for fiscal year 2010). 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.

On March 2, 2007, OSU Internal Medicine, LLC (OSUIM) entered into an interest rate swap (the "swap") agreement fixing the interest rate on a $2,169 Term Loan which was used to fund a 40% interest in the Fresenius Partnership. Under the agreement OSUIM pays a fixed rate of 5.29% to the bank and receives 30-day Libor rate in effect at the beginning of the month. The transaction is designed to manage OSUIM's interest costs and risks associated with the variable interest rate debt. OSUIM settles with the bank monthly for the difference between the 5.29% 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 $1,610, represents an unrealized loss of $112 included in other liabilities as of June 30, 2010. OSUIM records changes in fair value of the swap each quarter through the statements of operations and changes in net assets ($112 for fiscal year 2010). 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 February 28, 2012.

OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year. OSUP believes the swap value represents fair value under GASB Statement No. 53.

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 $32,802 and $30,818 for the years ended June 30, 2010 and 2009, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2010 are as follows:

Year Ending June 30,	
2011	$ 21,382
2012	17,204
2013	13,326
2014	10,156
2015	6,735
2016-2020	17,456
2021-2025	3,190
2026-2030	222
2031-2035	14
2036-2040	14
2041-2045	14
2046-2050	5
Total minimum lease payments	$ 89,718

NOTE 9 — COMPENSATED ABSENCES

University employees earn vacation and sick leave on a monthly basis.

Classified civil service employees may accrue vacation benefits up to a maximum of three years credit. Administrative and professional staff and faculty may accrue vacation benefits up to a maximum of 240 hours. For all classes of employees, any earned but unused vacation benefit is payable upon termination.

Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the university with ten or more years of service with the state. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 240 hours.

The university accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "termination payment method" which is set forth in Appendix C, Example 4 of the GASB Statement No. 16, *Accounting for Compensated Absences*. Under the termination method, the university calculates a ratio, Sick Leave Termination Cost per Year Worked, that is based on the university's actual historical experience of sick leave payouts to terminated employees. This ratio is then applied to the total years-of-service for current employees.

Certain employees of the university (mostly classified civil service employees) receive comp time in lieu of overtime pay. Any unused comp time must be paid to the employee at termination or retirement.

NOTE 10 — NONCURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 103,581	$ 13,195	$ 7,788	$ 108,988
Obligations under annuity and life income agreements	38,844	3,071	3,865	38,050
Refundable advances for Federal Perkins loans	29,907	-	952	28,955
Other non-current liabilities	55,501	26,216	-	81,717
	227,833	$ 42,482	$ 12,605	257,710
Less: Current portion	9,828			11,575
	$ 218,005			$ 246,135

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

Other non-current liabilities at June 30, 2010 and 2009 consist of the following:

	2010	2009
Amounts due to third-party payers - OSU Health System	$ 26,416	$ 22,418
Advance payments under exclusivity agreement	5,475	6,425
Interest rate swap - OSU Physicians	1,912	1,320
Bond premium	47,914	25,338
	$ 81,717	$ 55,501

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, 2010 and 2009 are as follows:

	2010	2009
Educational and general	$ 638,513	$ 606,937
Auxiliary enterprises	13,298	11,366
OSU Health System	427,647	363,328
Loan funds	3,179	2,235
Unrestricted quasi-endowments	31,277	31,515
Plant	151,676	203,553
	$ 1,265,590	$ 1,218,934

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, 2010 and 2009 are as follows:

	2010	2009
Current operations	$ 337,356	$ 312,157
Loan funds	44,977	43,592
Restricted quasi-endowments	95,721	110,441
Plant	9,183	1,932
	$ 487,237	$ 468,122

NOTE 12 – RENTALS UNDER OPERATING LEASES

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

Year Ending June 30,	
2011	$ 3,011
2012	1,758
2013	1,558
2014	1,215
2015	714
2016-2020	2,196
2021-2025	1,495
2026-2030	1,310
2031-2035	434
Total minimum future rentals	$ 13,691

NOTE 13 – 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, 2010 and 2009 are summarized as follows:

Year Ended June 30, 2010

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 748,265	$ 121,153	-	-	$ 869,418
Separately budgeted research	277,060	142,922	-	-	419,982
Public service	84,256	34,329	-	-	118,585
Academic support	115,780	24,475	-	-	140,255
Student services	65,902	21,701	-	-	87,603
Institutional support	102,556	88,976	-	-	191,532
Operation and maintenance of plant	42,965	66,475	-	-	109,440
Scholarships and fellowships	5,028	3,497	$96,022	-	104,547
Auxiliary enterprises	122,905	100,799	-	-	223,704
OSU Health System	849,363	634,210	-	-	1,483,573
OSU Physicians, Inc.	208,462	76,258	-	-	284,720
Depreciation	-	-	-	$ 231,744	231,744
Total operating expenses	$ 2,622,542	$ 1,314,795	$ 96,022	$ 231,744	$ 4,265,103

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	20,109	-	-	132,912
Student services	62,685	25,308	-	-	87,993
Institutional support	110,825	53,385	-	-	164,210
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	-	-	-	$ 222,308	222,308
Total operating expenses	$ 2,515,306	$ 1,227,185	$ 61,826	$ 222,308	$ 4,026,625

NOTE 14 — RETIREMENT PLANS

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

STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

Defined Benefit Plans

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

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

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

OPERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For the fiscal year ended December 31, 2009, OPERS allocated 7.0% (January 1 through March 31, 2009) and 5.5% (April 1 through December 31, 2009) 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, 2008 (the date of the system's latest actuarial review) was $10.7 billion. The actuarial accrued liability and the unfunded actuarially accrued liability for these benefits at December 31, 2008 is $29.6 billion and $18.9 billion, respectively. There were 357,584 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, 2009 and 356,388 active contributing participants used in the December 31, 2008 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, 2009, 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 $2.7 billion at June 30, 2009.

STRS Ohio expenditures for postemployment health care benefits during the year ended June 30, 2009 were $298,110. There were 129,659 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, 2010 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
2008	$ 47,516	$ 122,139	$ 34,830
2009	$ 50,227	$ 132,620	$ 36,924
2010	$ 52,500	$ 141,815	$ 39,014

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 $14,960 and $15,598 for the years ended June 30, 2010 and 2009, respectively.

NOTE 15 — CAPITAL PROJECT COMMITMENTS

At June 30, 2010, the university is committed to future contractual obligations for capital expenditures of approximately $270,161.

These projects are funded by the following sources:

State appropriations	$ 86,657
Internal and other sources	183,504
Total	$ 270,161

NOTE 16 — 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 17 — 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 18 — SUBSEQUENT EVENTS

Bond Issues

On September 15, 2010, the university a issued an offering statement for $654,785 in Fixed Rate General Receipts Bonds, Series 2010C, and $88,335 in General Receipts Bonds, Series 2010D. The Series 2010C bonds are federally taxable Build America Bonds and will be used to fund capital projects. The Series 2010C bonds mature on June 1, 2040 and have an interest rate of 4.91%. The federal government will provide a subsidy payment on the Build America Bonds equal to 35% of the interest, reducing the university's effective interest rate on the bonds to 3.19%. The Series 2010D bonds are tax-exempt and will be used to refund existing bond obligations. The Series 2010D bonds will have semi-annual principal payments until final maturity on December 1, 2032, with interest rates ranging from 3.25% to 5.00%.

On October 5, 2010, the university issued a preliminary offering statement for $150,000 of Variable Rate Demand General Receipts Bonds, Series 2010E. The bond proceeds will be used to fund capital projects and to refund existing commercial paper obligations. The Series 2010E bonds are subject to mandatory sinking fund redemption and payment prior to maturity on June 1, 2030 for $75,000 of the principal balance. The remaining $75,000 principal balance is payable at maturity on June 1, 2035.

Tornado Damage at the Ohio Agricultural Research and Development Center

On September 16, 2010, a tornado hit the Ohio Agricultural Research and Development Center in Wooster. Although only one minor injury was reported, the campus sustained significant damage to its buildings and grounds. Affected buildings include the Research Services Building, Agricultural Engineering Building, Research Operations Building, Simon Rice House (Police Station) and Barnhardt Rice House (Stone House). Damage assessment and initial clean-up activities are underway, but at this time, university management has not fully determined the financial statement impact of this event.

The Ohio State University
Supplementary Information on the Long-Term Investment Pool
Year Ended June 30, 2010

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 2010, the market value of the university's Long-Term Investment Pool, which includes both gifted endowments and long-term investments of university operating funds, increased $225 million, to $1.89 billion at June 30, 2010. Changes in market value for 2010 are summarized below:

Long-Term Investment Pool Activity *(in thousands)*

	Gifted Endowments			
	University	**Foundation**	**Long-Term Operating**	**Total**
Market Value at June 30, 2009	**$ 746,456**	**$ 348,393**	**$ 567,880**	**$ 1,662,729**
Net Principal Additions / (Withdrawals)	15,768	31,589	29,627	76,984
Change in Market Value:				
Realized Gains / (Losses)	54,541	25,342	41,174	121,057
Unrealized Gains / (Losses)	56,064	26,288	42,510	124,862
Income Earned	20,400	9,809	15,481	45,690
Distributions	(44,845)	(21,200)	(33,921)	(99,966)
Expenses	(19,551)	(9,401)	(14,836)	(43,788)
Market Value at June 30, 2010	**$ 828,833**	**$ 410,820**	**$ 647,915**	**$ 1,887,568**

Net principal additions (withdrawals) include new endowment gifts, reinvestment of unused endowment distribution 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, 2010. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($29 million), University Development related expenses ($14 million) and other investment related expenses ($1 million).

Investment Returns and Expenses:

The investment return for the Long-Term Investment Pool was 15.5% for fiscal year 2010, exceeding university benchmarks and placing it amongst the top of its peer group. The annualized investment returns for the three-year and five-year periods were -6.7% and 1.2%, respectively. These returns - which are net of investment management expenses as defined by Cambridge Associates for its annual survey - are used for comparison purposes with other endowments and various benchmarks. In addition to the $29 million of investment management expenses, which reduced the pool by 1.8% in fiscal year 2010, the $14 million of Development related expenses and $1 million of other investment related expenses further reduced the pool by 0.9%.

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

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