2012 Annual Financial Report

THE OHIO STATE UNIVERSITY

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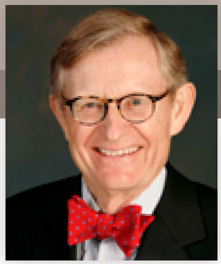
Message from the President



> Over the past several years, the university has undertaken critical and innovative steps to fortify our financial foundation and channel new revenue into investments for our students.

As Ohio's land-grant institution, Ohio State serves as both the front door to the American Dream and the gateway to the wider world. The minds expanded in our classrooms and the groundbreaking research incubated within our laboratories offer a daily reminder of the mantle we carry as leaders of American higher education. Quite clearly, our responsibility is not only to survive, but also to thrive in the 21st century.

Over the past several years, the university has undertaken critical and innovative steps to fortify our financial foundation and channel new revenue into investments for our students. For his part in developing those path-breaking financial strategies, our CFO Geoff Chatas received two *Columbus Business First* awards, the first for Nonprofit CFO of the Year, and the second for CFO Transaction of the Year for his execution of our century bond deal.

In autumn 2012, the university also launched the public phase of a new $2.5 billion campaign to fund excellence in our core academic mission—from scholarships and faculty support to research that strives to answer the most pressing needs of our global society. Quite simply, private giving and alumni involvement remain a hallmark of our foundation, and the university is reorganizing to reflect this reality.

Since I returned to Ohio State in 2007, the university has made remarkable progress in major indicators of success. Our budget has grown to $5.15 billion from $3.8 billion, with research expenditures now accounting for $934 million, up from $702 million in 2007. In academic excellence, 31 of our faculty are members of the prestigious National Academies, up from 23 five years ago. Student graduation rates have improved dramatically to 82.4 percent from 72.7 percent. We are currently educating more than 6,000 international students on campus. And, we are awarding 20 percent more institutional financial aid to all of our students each year.

Make no mistake: this is an exciting time for Ohio State. I firmly believe that this is our moment. The university has made significant leaps toward eminence as a world-class institution, and I am proud to say that we are continuing to move swiftly in that direction. In a world fraught with uncertainty, we must be the architects of our own destiny to remain a force for good and a catalyst for opportunity.

Sincerely,

E. Gordon Gee
President
The Ohio State University

Letter

from the Chair of the Board of Trustees

One hundred and fifty years ago—during the summer of 1862 in the middle of the Civil War— President Abraham Lincoln signed legislation that would irrevocably alter and transform our country's future in ways that no one then could have imagined. That legislation, known as the Morrill Act, had virtually nothing to do with the war; instead, the Morrill Act provided for the creation of "land-grant" public universities throughout the states that, for the first time, would make higher education open and accessible to the masses. Over time, our nation's land-grant universities have grown to become the largest intellectual engines for education, research, innovation, and service.

Founded in 1870 as one of the original land-grant universities, The Ohio State University has served the people of Ohio with distinction and excellence for more than 142 years. The university is a research giant; a national leader in the health sciences; and a powerhouse in agriculture, food safety, the arts, medicine, business, law, engineering, and so much more. And now, because of the breadth of excellence of our academic programs, the quality of our students and faculty, and our extensive research capabilities, we are poised to move forward in realizing our full and remarkable potential.

Our goals are lofty. Simply stated, we strive to become one of the nation's top-10 public universities. In order to attain that goal, we must remain committed to the pursuit of academic excellence, and we must be fiscally sound and financially strong, all the while never losing sight of the importance and meaning of our valued land-grant heritage.

During the past several years, we have operated in an environment of widespread economic uncertainty, with significant headwinds and unprecedented cutbacks in both state and federal funding. In the face of these extreme economic pressures, I am proud and honored to report that Ohio State—your university—has carefully and effectively managed its $5.1 billion operating budget. In addition to maintaining a balanced budget, we have done even more. By becoming more "entrepreneurial" and focusing on a number of key short- and long-term financial strategies, we have materially strengthened the financial condition of our university and generated meaningful revenues that will be allocated toward our core academic mission. Notable examples of this include the issuance of a $500 million century bond (the first of its kind by a public university); raising $483 million via the monetization of our parking facilities; and several record years of private fundraising.

Meanwhile, our students continue to excel in myriad ways. The academic standing of our freshman class is the highest in university history, and the degrees our students earn are highly valued, with Ohio State ranked 12th in the nation for producing the most sought-after graduates. Sixteen of our graduate programs are ranked in the top 10 by *U.S. News & World Report*, and our research facilities and institutions are continually ranked among the world's finest. From a faculty perspective, Ohio State continues to get better. Not only are we among the top universities in the country for faculty named each year as fellows to the American Association for the Advancement of Science (AAAS), but our faculty also have been named to prestigious academies in the arts, sciences, and medicine. The research and discoveries of our faculty have helped Ohio State become a national leader in industry-sponsored research.

Our notable accomplishments over the past year, along with the strong stewardship of our financial resources and academic programs, underscore the firm commitment of Ohio State to intellectual leadership in the 21st century. At the same time, we recognize our continued obligation, indeed our duty, to make the university better. I am honored to work alongside my colleagues on the Board of Trustees as well as with President Gee and our university's superb leadership team as we continue our journey to move to the front ranks of American higher education.

Sincerely,

Robert H. Schottenstein
Chairman and CEO of MI Homes
Chair, The Ohio State University Board of Trustees

Our notable accomplishments over the past year, along with the strong stewardship of our financial resources and academic programs, underscore the firm commitment of Ohio State to intellectual leadership in the 21st century.

Institutional Highlights:

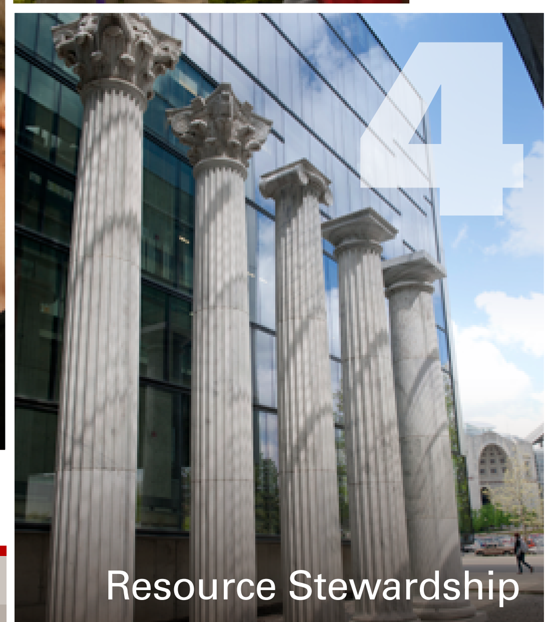
Maintaining Our Focus

Everything we do is guided by four institution-wide goals that are fundamental to Ohio State's mission and future success.

To provide an unsurpassed, student-centered learning experience led by engaged, world-class faculty and enhanced by a globally diverse student body.

To create distinctive and internationally recognized contributions to the advancement of fundamental knowledge and scholarship and to solutions of the world's most pressing problems.

To establish mutually beneficial partnerships with the citizens and institutions of Ohio, the nation, and the world so that our communities are actively engaged in the exciting work of The Ohio State University.



To become the model for an affordable public university recognized for financial sustainability, unsurpassed management of human and physical resources, and operational efficiency and effectiveness.

Teaching and Learning

The International University

Ohio State President E. Gordon Gee believes in a global Ohio State and has called on all students to get a passport. "Nearly 2,000 of our undergraduate students are studying abroad every year—navigating unfamiliar corners of the world and gaining tremendous knowledge and skills in the process," he says. The Office of International Affairs supports more than 100 study abroad programs, beckoning students to all seven continents.

It's not just students who are broadening their horizons. More than two-thirds of Ohio State faculty have been involved in international professional activities, and over 800 courses with international content are taught.

As they learn life lessons in new lands, many globetrotting Buckeyes return with visually stunning evidence of their experiences. These photos are showcased annually in the International Photography Competition and Exhibition.

Read the full story here.

5,500+ international students enrolled in 2011-12

100+ countries represented

30 languages offered in **600+** courses

2,000 undergraduates study abroad every year

Teaching and Learning

Rising Stars

Once the realm of Ivy League schools, national and international accolades are now annually bestowed upon exceptional Buckeyes. The scholarly pursuits of these award-winning undergraduates and members of Ohio State's Honors Collegium are leading to game-changing research with real-world implications.

"This has been a wonderful year for the success of our students in winning national and internationally recognized fellowships," says Linn Van Woerkom, associate provost and director, Honors & Scholars. "This runs the range from the Churchill Fellowship all the way to nationally recognized Goldwater Fellowships for performing research at an undergraduate level."

Learn more here.

Recognition proving that Ohio State students are in the big leagues

Courtesy: The Lantern

Marc Khoury, computer science and engineering, is the third Ohio State student ever to be named a Churchill Scholar. Building on the research he began as an undergraduate, Marc will pursue an M.Phil. in advanced computer science at the University of Cambridge, researching geometric modeling.

Truman Scholar **Alex Chaitoff**, microbiology and political science, co-founded the nonprofit Pure Water Access Project to study the implementation of water filters in developing nations. He serves as vice president for the student group Global Health Initiative, and is conducting research on racial disparities in seeking mental illness treatment.

Institutional Highlights:

Research and Innovation

A Grand Celebration of Undergraduate Research

Tom Kaffenberger was like a lot of Ohio State students these days—he came to Ohio State fully expecting he'd participate in research projects as an undergrad.

Kaffenberger spent four years in the same lab, moving from a liver cancer project to a breast cancer project. After graduating in June, he is now studying brain cancer in Germany on a Fulbright Scholarship.

"Research opens a ton of doors for you," he says. "I would have had nowhere near the opportunities or the experiences I've had without research."

Kaffenberger was one of more than 600 Ohio State undergrads who presented his research at the 2012 Denman Undergraduate Research Forum.

"The kinds of questions our students are working on are quite impressive," says Allison Snow, director of Ohio State's Undergraduate Research Office. "They're looking for cures for cancer, more nutritional food, better ways to grow crops, sustainable agriculture, energy, and the environment."

Learn more and see a video here.

The Denman Forum, where more than **600** students showed off research projects "from astronomy to zoology"

Ohio State Faculty Share Ideas at TEDxColumbus

Whether it's finding cancer early enough to save lives or revamping the way we think of "old folks' homes," seven Ohio State faculty members shared ideas to change the world.

See the videos and learn more here.

Institutional Highlights:

Research and Innovation

From Spark to Startup, CoSTART Engages Student Innovators

CoSTART is a student-led, student-run initiative to enhance the educational experience on campus and provide a professional development channel for some of our most creative ideas and startups. It is part of the Technology Commercialization Office, which directs all patent and licensing activities, and coordinates the distribution of royalties and payments received related to industrial partnerships.

CoSTART is more than an organization; it's a movement designed to form dynamic connections and provide resources needed to build an ecosystem capable of fostering an idea from inception to implementation, or, as we like to say, from spark to startup.

While not the primary objective, Ohio State has the opportunity to hold equity in many of these new startup companies that will generate a direct return to the university and allow the program to be self-sustaining as companies grow and exit.

Learn more here.

Buckeye Innovators

From renewable energy to the link between health and food, Ohio State faculty are tackling major societal issues that affect everyday lives.

See the videos and learn more here.

Outreach and Engagement

Young Scholars—*Celebrating 25 Years*

It was just paperwork 21 years ago. Take it home, have your parents fill it out, and bring it back to school when it's completed. Percy Lipsey and Keisha Hunley-Jenkins were in middle school in 1991, and the signing thing had become a ritual. They didn't realize until later that this paperwork was like no other.

What their mothers signed was a promise that Ohio State would ensure their children an opportunity to be the first in their families to earn a college degree. In return, as new members of the Young Scholars Program, Lipsey and Hunley-Jenkins agreed to keep up their already excellent grades and attend weekly and summer learning enrichment sessions with their fellow scholars.

Learn more here.

On the road
with President Gee

Each summer, President E. Gordon Gee travels Ohio, meeting everyone from future Buckeyes to alumni who are making the state a better place.

In summer 2012, it took only six days to reach 39 counties and rack up a hefty 1,722 miles on the odometer. Such is the brisk pace of life on the road with President Gee.

Each year, energized by the mutual love affair between Ohioans and their land-grant university, President Gee spreads some Buckeye spirit throughout Ohio as part of his annual summer tour project.

Learn more and see the video here.

Outreach and Engagement

Sustainable Futures for Linden Village

The idea of the Sustainable Futures for Linden Village initiative is to provide recommendations and generate visions on how to make the area more livable and how to create healthy neighborhoods. But project leaders knew that in order to make a real impact, they would need significant input from residents. "If you don't live there and aren't there every day, you have no idea what is going on," says Jesus J. Lara, an assistant professor in the Knowlton School of Architecture and one of the project leads. "So we needed to immerse in the community, talk to the residents and interact as much as possible, and make the residents part of the process."

Learn more here.

Photos courtesy of Jesus J. Lara

Courtesy: Rebecca Gray

Creating Strong Families

Strong families equate to strong students. Strong students tend to pursue a college degree and graduate.

Ohio State Mansfield has hired a family engagement and outreach coordinator to put that notion into action, in what it believes is the first collaboration anywhere between a school district, university, and community.

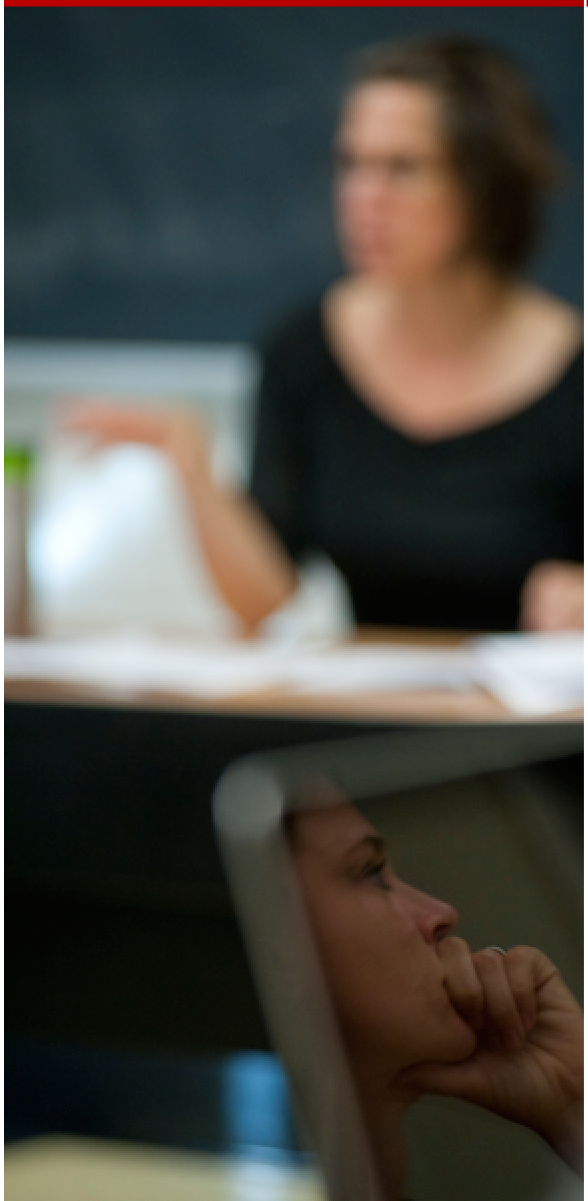
"Students' aspirations for college begin with the parents," says Stephen Gavazzi, Ohio State Mansfield dean and director. "They need to show students that going to college is attainable."

Renee Thompson, the new coordinator, tackles a daunting list of duties every day.

Learn more here.

A Transformational Year

Report from the Chief Financial Officer



Geoff Chatas

Fiscal year 2012 proved to be one of change, challenge, and progress for The Ohio State University. Harsh economic realities persist, affecting the nation, the State of Ohio, and public universities across the country. It is no surprise that students and their families continue to face considerable financial strain; no one is immune from these very real and persistent economic pressures.

In this atmosphere of uncertainty and challenge, the university continues to explore critical questions: what can we do to fulfill our mission to advance the well-being of the people of Ohio and the global community through the creation and dissemination of knowledge? How can the university fund these efforts and sustain itself now and into the future? How can we act more creatively, innovatively, and prudently to move Ohio State from excellence to eminence?

Clearly, the university must strive to identify pioneering ways to advance our vision of becoming the world's preeminent public comprehensive university, solving problems of worldwide significance. Government support is permanently shrinking, and tuitions cannot sustain seismic increases, burdening students with overwhelming and often devastating debt. Conducting business the "old way" won't secure our future, advance our academic core mission, nor raise us to the eminence we seek. The old way of doing things just doesn't work anymore.

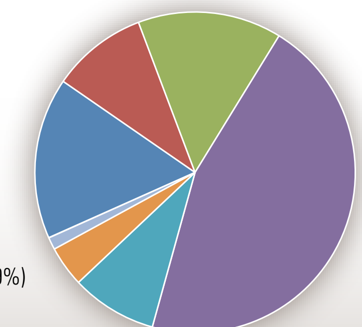
Emergence of a New Funding Model

Driven by our academic mission, a promising new way of financing the university has emerged to secure the future of Ohio State. In FY12, we've created and executed several resource stewardship strategies, which encompass multifaceted resource generating and resource savings approaches. The combination of our financing methodologies creates something quite revolutionary and transformative.

Total University Revenues

2012 ($ in millions)

- Patient care: $2,220 (45%)
- Tuition: $794 (16%)
- Grants and contracts: $709 (15%)
- State appropriations: $470 (10%)
- Sales and services: $423 (9%)
- Gifts: $200 (4%)
- Net investment income: $60 (1%)



Total Revenues: $4.88 Billion

Our out-of-the-box strategizing has resulted in more resources redirected back to the core academic mission of the university.

What we've advanced over the past year are the initial phases of a contemporary model for financing the university, and as a result, Ohio State has witnessed a profound and sweeping transformation of its financial enterprise. Our out-of-the-box strategizing has resulted in more resources redirected back to what matters most: the core academic mission of the university.

Opportunities to discover original and resourceful methods of financing the modern university are uniquely ours, and our potential and determination to achieve great things are immense. These are electrifying times at Ohio State. We're limited solely by our own imaginations and vision for what can and will be our collective future. Along the resource stewardship journey, we've realized that to ensure success all viable strategies that serve to strengthen the academic core of the institution must be explored and tapped.

University Strategic Plan
10-Year Financial Goals

New Resource Generation:
$2 billion

To Be Invested In:

student financial aid:
$300 million

enhancing the student experience:
$200 million

new faculty, research, and teaching:
$100 million

new facilities:
$1.5 billion

In FY12, we have demonstrated our commitment to securing the future financial stability of Ohio State in a number of key ways.

UNIQUE PARTNERSHIPS AND COLLABORATIONS

The university signed a robust affinity agreement with Huntington Bank at excellent terms for employees and students, and an upfront payment of $25 million, which the university will use for academic scholarships and educational programming. Huntington's commitment is ongoing. The exclusive 15-year partnership makes Huntington the university's official consumer bank. The agreement is the most comprehensive and innovative partnership of its kind in the country.

What's particularly exciting about this agreement is Huntington's additional commitment of $100 million in dedicated community lending and investments to support the economic development of neighborhoods surrounding the Columbus campus. The partnership includes revenue sharing, which means additional funds for the university to invest in the academic core as the relationship expands.

More than $10 million of the funds will go into Ohio State's endowment and will be earmarked for updating classroom space and technology. Another portion of the funds will support financial literacy programs, career initiatives that will take students into the community for internships and service learning projects, and seed money for student-developed initiatives to enhance student wellness. The new funding also will be used to sustain and expand Alumni Association programming, including alumni career services, enhanced regional programming and events, and the development of volunteer opportunities for alumni and supporters of Ohio State.

UNLOCKING THE POWER OF INVENTIONS

The university launched a highly collaborative Office of Technology Commercialization and Knowledge Transfer (TCO), which supports all phases of technology commercialization and startup development at Ohio State. The TCO's mission is to: foster an entrepreneurial culture university wide; catalyze faculty, staff, and student inventions; maximize the impact of Ohio State research; and accelerate transition of new inventions into products, services, companies, and jobs.

In FY12, our TCO experienced a 340 percent increase in new revenue and saw the beginnings of a widespread culture shift that led to the engagement of 418 new inventors and 319 invention disclosures, a 50 percent increase in total disclosures. The entrepreneurial shift wasn't

Tech Transfer in FY12

340% increase in new revenue

418 new inventors

319 invention disclosures UP 50%

limited to faculty and staff, as TCO made it one of its highest priorities to engage Ohio State's most creative and passionate resources—its students. By creating new educational programs and opportunities, over 300 students engaged in TCO-led initiatives and events, and 30 student associates now play an integral role in the daily commercialization processes. The coming year will bring more change, more programs, and more successes than ever before in Ohio State's history.

INNOVATIVE FINANCING STRATEGIES

Ohio State issued $500 million in century bonds, becoming the first public university in the nation to do so. The university secured a favorable interest rate of 4.8 percent.

Proceeds from the sale of the bonds are being used to fund $2 billion of capital-expenditure projects on campus, including the expansion of the Wexner Medical Center. In addition, they provide semi-permanent capital for growth over the next 100 years.

I'm proud to say that *Columbus Business First* recognized the university with Transaction of the Year honors for the century bonds transaction.

ASSET MONETIZATION

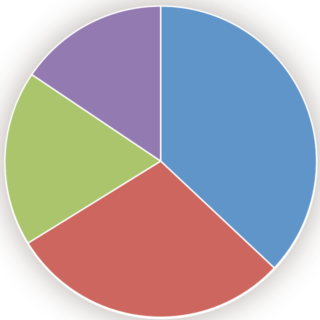
The university signed a 50-year agreement to lease its parking operations for $483 million, which, in time, will provide $3.1 billion in investment earnings for academic initiatives, such as hiring more faculty, offering more student scholarships, and supporting the arts and humanities.

The management of parking operations isn't core to what Ohio State is: teaching and learning, research and innovation, and outreach and engagement are. Resources garnered from the lease have been reinvested into the core mission of the university, allowing Ohio State to prudently secure its future in turbulent, unpredictable economic times.

CampusParc now manages and operates The Ohio State University's parking facilities, working hand-in-hand with us to provide the high-quality parking services that students, faculty, staff, and visitors need and expect. Our shared goal and promise is an efficient, accessible, and user-friendly parking system for everyone at the university.

Long-Term Investment Pool Asset Allocation

June 30, 2012



- Market Exposure: 37.0%
- Risk Reducers: 29.2%
- Return Enhancers: 18.2%
- Inflation Hedges: 15.6%

LTIP Distributions by Designated Use

2012 ($ in millions)

Scholarships, fellowships, and loans	$18.6
Chairs, professorships, and eminent scholars	17.8
General educational support and libraries	16.7
Research	7.9
Administrative support	5.1
Public service	1.3
General university operations	36.8
Total	$104.2

What is the Long-Term Investment Pool?

The Long-Term Investment Pool (LTIP) consists of endowment funds for the university and The Ohio State University Foundation and operating funds internally designated to function as endowments. The LTIP operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for an annual distribution.

LTIP is invested according to a thematic asset allocation model that groups investments into four categories:

- **Market Exposure**—domestic, international, and emerging market equities, and long/short equity managers
- **Risk Reducers**—fixed income and low volatility absolute return managers
- **Return Enhancers**—private equity, distressed debt, and opportunistic funds
- **Inflation Hedges**—real estate, natural resources, commodities, and infrastructure

STRENGTHENING THE ENDOWMENT

The university achieved a three-year investment return for the Long-Term Investment Pool of 10.5 percent, which exceeded established benchmarks by 1.6 percent. Through choppy and unsettled markets, our investments team secured positive returns and helped to secure the corpus for an unpredictable future.

In 2008, the Office of Investments was created to ensure strategic management of the university's LTIP, with a goal to deliver long-term, attractive, risk-adjusted returns to support the academic mission of the university.

Our asset allocation copes with uncertainty by focusing on the long-term investment horizon. Our diversification and value orientation strategies guide us in managing the university's endowment to deliver strong risk-adjusted rates of returns over time.

EFFICIENTLY MANAGING EXPENSES

At Ohio State, we're transforming our operating model so that we run with greater efficiency, and the accumulation of seemingly small gains adds up quickly. For example, in FY12, our incremental cost savings was $21.8 million through the implementation of strategic procurement initiatives.

In addition, we've successfully reduced the number of suppliers in our vendor database by 20 percent, leveraging the university's size and collective ability to negotiate for quality goods and services.

We've launched a series of e-Tools designed to improve operational efficiencies and support campus sustainability efforts, making paperless systems more of a reality at Ohio State.

We're on a mission to achieve operational excellence in all areas within the Office of Business and Finance in an effort to reduce costs, eliminate wasteful practices, standardize work flow, and enhance efficiencies. Throughout, we'll continue to value with the utmost respect the people and processes that help realize the Ohio State vision and make the Ohio State experience an unforgettable one for the students and families we serve.

What the Future Holds

Is there more to do? You bet. We are opportunity wealthy at Ohio State. And moving forward, we remain committed to resource generation through reallocation, savings, and the creation of new sources of revenue. We are dedicated to effective resource stewardship and seek to become the model of an affordable public university recognized for financial sustainability, unsurpassed management of human and physical resources, and operational efficiency.

Our strategies include building and diversifying our revenue streams by growing new revenue sources, unlocking the financial potential of inventions, and building the endowment. We must continue to reduce our expenses by working smarter, leveraging our purchasing power, and standardizing our processes.

Of course, the future remains uncertain, but by implementing prudent financial strategies and planning for what might lie ahead, we will meet challenges head on and flourish as a result.

Moving forward, our chief challenges include aligning resources with academic priorities, managing reductions in state support, reducing student debt, minimizing tuition increases, diversifying revenue streams, and reducing expenditures. Our other pressing challenges include meeting capital and infrastructure needs, measuring performance, managing risk in a complex world, driving accountability, and understanding the implications of globalization in higher education.

If you haven't already, I urge you to read the Institutional Highlights preceding this report. As you'll see, these high points from 2012—a source of great pride for all of us at Ohio State—reflect the university's steadfast commitment to achieving its core goals:

- Teaching and Learning
- Research and Innovation
- Outreach and Engagement
- Resource Stewardship

I also encourage you to read our financial statements so that you get a deeper and closer look at the finances of the university and see firsthand how we are realizing our resource stewardship goal. We welcome your continued interest in this great university.

As always, Go Bucks!

Sincerely,

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

Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of net assets and the related statements of revenues, expenses and changes in net assets and statements of cash flows present fairly, in all material respects, the financial position of The Ohio State University (the "university"), a component unit of the State of Ohio, as of June 30, 2012 and June 30, 2011 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of university's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying management's discussion and analysis on pages 19 through 31 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's consolidated financial statements. The Supplementary Information on the Long-Term Investment Pool on page 69 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion nor provide any assurance on it.

PricewaterhouseCoopers LLP

October 16, 2012

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
T: (614) 225-8700, F: (614) 224-1044, www.pwc.com/us

Management's Discussion and Analysis

for the Year Ended
June 30, 2012
(Unaudited)

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University (the "university") for the year ended June 30, 2012, with comparative information for the years ended June 30, 2011 and June 30, 2010. 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 64,000 students, 6,000 faculty members and 22,000 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 170 undergraduate majors, 145 master's degree programs, 113 doctoral programs and seven professional degree programs.

The university operates one of the nation's leading academic medical centers, The Ohio State University Wexner Medical Center. As a part of the Wexner Medical Center, the OSU 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, Dodd Rehabilitation Hospital, three comprehensive outpatient care centers, an ambulatory surgery center, a comprehensive breast treatment center, and 23 clinics. The Health System provided services to more than 56,000 adult inpatients and 1,220,000 outpatients during Fiscal Year 2012.

The university is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The university's 14 colleges, two independent schools, the Wexner Medical Center and various academic support units operate largely on a decentralized basis. The Board approves annual budgets for university operations, but these budgets are managed at the college and department level.

The following financial statements reflect all assets, liabilities and net assets (equity) of the university, the Wexner Medical Center, 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, Inc. (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 (GASB) 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.

The university is considered a "component unit" of the State of Ohio and is included in the State of Ohio's Comprehensive Annual Financial Report.

ABOUT THE FINANCIAL STATEMENTS

The university presents its financial reports in a "business type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial 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, 2012, with comparative information as of June 30, 2011. 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
- Restricted – Expendable
- 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, 2012, with comparative information for Fiscal Year 2011. Tuition revenue is shown net of scholarship allowances, patient care revenue is shown net of contractual allowances, charity care and bad debt expense, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

It should be noted that the required subtotal for net operating income or loss will generally reflect a "loss" for state-supported colleges and universities. This is primarily due to the way operating and non-operating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all university expenses, except for interest on long-term debt. Operating revenues, however, *exclude* certain significant revenue streams that the university and other public institutions have traditionally relied upon to fund current operations, including state instructional support, current-use gifts and investment income.

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2012, with comparative information for Fiscal Year 2011. 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 $241 million, to $5.49 billion at June 30, 2012, primarily due to increases in tuition and gift revenues, limited growth in expenses and positive operating results for the OSU Health System. In October 2011, the university issued $500 million of federally taxable "Century Bonds", which mature in June 2111. Total university plant debt increased $443 million, to $2.48 billion. Total unrestricted and restricted-expendable net assets increased $157 million, to $2.21 billion.

Demand for an Ohio State education remains strong, and student outcomes continue to improve. 64,429 students were enrolled in Autumn 2011, up slightly from Autumn 2010. 93% of the freshmen enrolled in Autumn 2010 returned to OSU in Autumn 2011. Over the past five years, four-year graduation rates have increased from 42% to 59%, and six-year graduation rates have increased from 71% to 80%.

The following sections provide additional details on the university's 2012 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Statement of Net Assets

Total university **cash and temporary investment** balances decreased $176 million, to $1.34 billion, primarily due to transfers of operating funds to the Long-Term Investment Pool. **Restricted cash** balances increased $226 million, to $714 million, reflecting the proceeds of the Century Bonds, which were partially offset by capital expenditures for the Medical Center expansion, the renovation and expansion of student housing on south campus and other projects. 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.

Accounts receivable increased $70 million, to $472 million at June 30, 2012, primarily due to increases in patient care receivables for the Health System (up $60 million) and OSU Physicians (up $12 million). Key factors contributing to the increases include one-time billing lags associated with the implementation of a new patient information and billing system, EPIC, a change in Medicare Fiscal Intermediary that slowed payment periods from 6 to 21 days, and slower claims processing by other payors.

The market value of the university's **long-term investment pool** increased $245 million, to $2.37 billion at June 30, 2012, primarily due to transfers of operating funds, which totaled $311 million. 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.

Summary Statement of Net Assets (in thousands)

	2012	2011	2010
Cash and temporary investments	$ 1,339,961	$ 1,516,357	$ 1,218,665
Current receivables, inventories, and prepaid expenses	628,809	552,548	572,436
Total current assets	1,968,770	2,068,905	1,791,101
Restricted cash	714,226	488,361	25,278
Noncurrent notes and pledges receivable	95,140	82,138	81,424
Long-term investment pool	2,366,033	2,120,714	1,887,568
Other long-term investments	76,769	68,283	64,232
Capital assets, net of accumulated depreciation	3,842,351	3,465,010	3,231,134
Total noncurrent assets	7,094,519	6,224,506	5,289,636
Total assets	$ 9,063,289	$ 8,293,411	$ 7,080,737
Accounts payable and accrued expenses	$ 442,165	$ 392,275	$ 376,469
Deferred revenues and deposits	231,545	228,550	208,579
Commercial paper and current portion of bonds, notes, and lease obligations	553,151	542,903	505,842
Other current liabilities	75,295	60,362	58,503
Total current liabilities	1,302,156	1,224,090	1,149,393
Noncurrent portion of bonds, notes, and lease obligations	1,923,833	1,490,810	898,243
Other noncurrent liabilities	346,014	327,807	312,472
Total noncurrent liabilities	2,269,847	1,818,617	1,210,715
Total liabilities	$ 3,572,003	$ 3,042,707	$ 2,360,108
Invested in capital assets, net of related debt	$ 2,079,926	$ 1,979,373	$ 1,875,977
Restricted–nonexpendable net assets	1,200,473	1,217,323	1,091,825
Restricted–expendable net assets	603,108	592,082	487,237
Unrestricted net assets	1,607,779	1,461,926	1,265,590
Total net assets	$ 5,491,286	$ 5,250,704	$ 4,720,629

Other long-term investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation. These investments increased $8 million, to $77 million at June 30, 2012.

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $377 million, to $3.84 billion at June 30, 2012. 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).

Major projects completed in 2012 include the Plant and Animal Agrosecurity Research Facility (a $22 million biocontainment laboratory with capacity for plant and animal research at the BSL-3 and BSL-3 Ag safety levels), renovations of Cunz Hall and the Science and Engineering Library and (shortly after yearend) the build-out of the 4th, 5th and 6th floors of the Biomedical Research Tower. In addition, several major construction projects are currently underway or in advanced planning stages, including:

Cunz Hall renovation

- **Medical Center Expansion** – Construction of a 21-story, $1.1 billion new facility for the James Cancer Hospital and Solove Research Institute and the Critical Care Center is proceeding on time and on budget for a 2014 opening. The university is financing the project with a combination of bonds ($925 million), private gifts ($75 million) and a $100 million federal grant.

- **South High Rises Renovation and Addition** – Work continues on the $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. Park and Stradley halls were opened for Fall Semester. Work on Smith, Steeb and Siebert halls is on schedule for completion before the 2013-2014 academic year.

Courtesy: Jim Brown, Wexner Medical Center

Medical Center expansion

South High Rises Renovation and Addition

- **William H. Hall Complex Expansion** – Work continues 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 later this year.

Courtesy: Acock and Associates

- **Sullivant Hall Renovation** – Work is underway on a $26 million project to renovate Sullivant Hall, including creation of an entryway to High Street and the adjoining plaza. When completed in Fall 2013, the renovated facility will house the Advanced Computing Center for the Arts & Design, the Department of Dance, the Billy Ireland Cartoon Library & Museum and the Department of Art Education.

- **Chemical and Bio-molecular Engineering and Chemistry Building** – Construction is underway on a $126 million facility for the Chemistry and Chemical and Bio-molecular Engineering departments. The 225,000 square-foot building will contain research and teaching laboratories, faculty offices, and seminar rooms. Construction is projected to be completed by January 2015.

Courtesy: Pelli Clark Pelli Architects

- **Infrastructure Improvements** – Work continues on several major infrastructure projects, including construction of 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 south campus chiller project is expected to be completed in November 2012. The east regional chiller project is expected to be completed in 2014. In addition, a geothermal well project on South Oval, which will provide up to 50% of the heating and cooling for the Hall complex and south campus high rises, is expected to be completed in 2014.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $706 million at June 30, 2012.

Accounts payable and accrued expenses increased $50 million, to $442 million in 2012, primarily due to increases in vendor payables for capital projects and operating expenses (up $16 million and $28 million, respectively) and increases in retirement contributions payable (up $19 million, due to timing differences in yearend remittances).

Total university debt, in the form of **bonds, notes and capital lease obligations**, increased $443 million, to $2.48 billion at June 30, 2012. In October 2011, the university issued $500 million in federally taxable fixed-rate general receipts bonds that mature in full on June 1, 2111. The Century Bonds, which bear a 4.80% interest rate, allow the university to continue to diversify its debt portfolio along the yield curve, capturing a historically low cost of capital for a very long time. The university also realized a $20 million gain on an interest-rate lock agreement associated with the bond issue. A portion of this gain ($10 million) has been invested in the university's long-term investment pool to serve as a repayment fund for the principal on the century bonds.

The university's plant debt includes variable rate demand bonds that mature at various dates through 2035. GASB Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the statement of net asset 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 $470 million at both June 30, 2012 and 2011, respectively.

Subsequent to yearend, the university issued offering statements for $91 million in tax-exempt General Receipts Bonds and $23 million in federally taxable General Receipts Bonds. The proceeds of these bond issues will be used to refund existing bond obligations.

Prior-Year Highlights: *In 2011*, total unrestricted and restricted-expendable net assets increased $301 million, to $2.05 billion. Three September 2010 bond issues increased total university plant debt by $630 million, to $2.03 billion. ***In 2010***, total unrestricted and restricted-expendable net assets increased $66 million, to $1.75 billion. Total university plant debt was stable at $1.35 billion.

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

Net tuition and fees increased $61 million, or 8%, to $794 million in 2012. Total university enrollments increased 1%, with Columbus campus enrollments up 2%. Non-resident student enrollments increased 9% and now account for 21.5% of the university's total enrollments. Tuition rates increased 4% overall, with a 3.5% increase for undergraduates.

Operating **grant and contract revenues** increased $30 million, to $635 million in 2012, primarily due to a new $20 million HRSA (Health Resources and Services Administration) grant to expand the Access to Care Program. Revenues for sponsored research programs administered by the Office of Sponsored Programs (formerly known as the OSU Research Foundation) increased $8 million, to $489 million. By the end of 2012, the bulk of the additional research funding provided under the American Recovery and Reinvestment Act of 2009 had been awarded and expended. Excluding the effect of $145 million of one-time awards received in October 2010 and January 2011, total federal awards are down 7%. The decrease in awards is spread across all federal agencies.

Educational and general expenses increased 2%, to $2.13 billion in 2012. Additional details are provided on the next page.

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

	2012	2011	2010
Operating Revenues:			
Tuition and fees, net	$ 793,742	$ 732,688	$ 664,184
Grants and contracts	634,608	604,536	579,463
Auxiliary enterprises sales and services, net	233,020	232,482	204,676
OSU Health System sales and services, net	1,921,897	1,706,037	1,613,974
OSU Physicians sales and services, net	298,114	282,144	277,644
Departmental sales and other operating revenues	183,926	197,432	182,503
Total operating revenues	4,065,307	3,755,319	3,522,444
Operating Expenses:			
Educational and general	2,130,716	2,092,517	2,000,952
Auxiliary enterprises	239,570	244,787	223,704
OSU Health System	1,697,628	1,484,405	1,405,015
OSU Physicians	266,411	264,399	252,549
Depreciation	242,391	239,351	231,744
Total operating expenses	4,576,716	4,325,459	4,113,964
Net operating income (loss)	(511,409)	(570,140)	(591,520)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	428,306	439,576	443,337
Federal fiscal stabilization funds	-	60,063	59,234
Gifts - current use	139,599	103,754	90,743
Net investment income (loss)	60,177	365,108	323,944
Grants, interest expense and other non-operating	21,350	21,749	(2,264)
Income (loss) before other revenues, expenses gains or losses	138,023	420,110	323,474
State capital appropriations	42,188	62,732	33,042
Private capital gifts	19,072	16,398	15,545
Additions to permanent endowments	41,299	30,835	33,363
Increase (decrease) in net assets	240,582	530,075	405,424
Net assets - beginning of year	5,250,704	4,720,629	4,315,205
Net assets - end of year	$ 5,491,286	$ 5,250,704	$ 4,720,629

Educational and General Expenses (in thousands)

	2012	2011	2010
Instruction and departmental research	$ 880,042	$ 843,406	$ 829,008
Separately budgeted research	447,213	440,756	419,982
Public service	109,714	110,357	118,585
Academic support	162,783	147,845	140,255
Student services	90,493	88,604	87,603
Institutional support	224,377	243,827	191,532
Operation and maintenance of plant	105,346	115,091	109,440
Scholarships and fellowships	110,748	102,631	104,547
Total	$ 2,130,716	$ 2,092,517	$ 2,000,952

Total **instructional and departmental research** expenses increased $37 million in 2012, primarily due to faculty/staff salary 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. **Academic support** expenses increased $15 million, reflecting increased expenditures for Libraries and increased salary and benefit costs in several college offices, including Medicine, Nursing, Engineering and Undergraduate Studies. **Institutional support** decreased $19 million, primarily due to a reduction in central accruals for employee health care costs. Lower prices for natural gas reduced **operation and maintenance of plant** expense by $10 million.

Sales and service revenues of the university's **Auxiliary Enterprises** increased $1 million, to $233 million in 2012, primarily due to increases in housing and food service rates, which were partially offset by the loss of beds due to the temporary closures of Park and Stradley residence halls, and increases in parking revenue. Auxiliary expenses decreased $5 million, to $240 million.

The Ohio State University Health System operates nearly 1,200 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. Its Signature programs in Cancer, Critical Care, Imaging, Heart, Neurosciences and Transplantation provide personalized patient care. The Wexner Medical Center has 10 nationally ranked specialties in US News and World Report. It is designated as a Level I Trauma Center, has the only adult burn center in Central Ohio, and is home to a Level III neonatal intensive care unit.

A $1.1 billion construction project broke ground in 2010, representing the largest development project in The Ohio State University's history. Once complete, the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, a Critical Care Center, as well as integrated, state-of-the-art research facilities will provide scientists, researchers and clinicians with a single collaborative environment for research, education and patient care. This 1.1 million square foot building will include 276 cancer beds and 144 critical care beds. Construction is expected to be completed in 2014, and more than 300,000 patients will be served annually when the facility is opened.

In October, 2011 the Medical Center converted to a single, integrated and personalized health record across the continuum of a patient's interaction with the Medical Center. All members of the Medical Center team now use the same system to access and enter information in the patient medical and financial record. In May 2012, Wexner Medical Center was the first hospital in Ohio and among only 86 of the more than 5,000 hospitals in the nation to achieve the highest designation for electronic medical record adoption.

In 2012, the Health System experienced strong activity levels and remained financially sound. Consistent with national trends, inpatient admissions dropped modestly, most notably in medicine, rehab and substance abuse. These drops were offset by gains in surgical and cardiovascular admissions, which have significantly greater margins.

Inpatient surgeries increased approximately 2.0%, while outpatient surgeries increased 4.7% with growth in Neurosurgery, Orthopedics and Urology. Outpatient visits increased 15% over the previous year, as the Health System opened its CarePoint East ambulatory facility and The James Breast Center and experienced continued growth at other CarePoint facilities and primary care locations.

Consolidated Health System operating revenues grew $216 million, or 13%, from the prior year. Approximately one third of the increase was driven by stronger activities, with the remaining increase resulting from higher case intensity, sustained payer mix, and increased rates from third party payers. Included in operating revenue is a one-time recognition of approximately $10.3 million receivable from Medicare for The James on previous years cost reports.

Consolidated Health System expenses (excluding depreciation, interest and transfers) grew $213 million, or 14%, mirroring changes in activities and reflecting price increases. Salaries and benefits were up approximately 10%, some of which is one-time expense associated with the IHIS implementation (IHIS is the Health System's new patient information and billing system, also referred to as EPIC). There was a 25% growth in drug expenses, caused by a combination of more chemotherapy sites being open, more expensive chemotherapy agents being used, and uncertain drug availability which impacted both prices and the mix of drugs used. Supply cost increases were limited to approximately 7.5% as strategic sourcing kept price increases down.

Margins remained strong, with the Operating Margin increasing from 8.0% to 8.3%. The Excess of Revenues over Expenses was approximately $169.0 million, including the one-time recognition of the Medicare receivable, versus $144.5 million in 2011. $99.0 million was reinvested back into research, education, and programs at the Medical Center. The Medical Center was a recipient of a $100 million grant from The Health Resources and Services Administration (HRSA), an agency of the U.S. Department of Health & Human Services, in support of the new tower construction. Approximately $30.4 million of the total grant was recognized under Contribution for Property Acquisitions as a change in net assets. Another $6.5 million from other sources was also recognized. In total, after accounting for Excess of Revenue over Expenses, Investments in the Medical Center, and Contributions for Property Acquisitions, the Health System's net assets increased approximately $107 million.

As with all healthcare providers, the Health System will be challenged by uncertain impacts of Healthcare Reform. Uncertainty in the upcoming elections and the potential repeal of existing legislation continues to complicate the environment. Regardless, the Medical Center continues to position itself to thrive in the changing market, as it has successfully done in the past. Integration of the medical staff into the Faculty Group Practice provides a unified structure to manage changes in reimbursement, change in practice patterns and alignment in strategies. The Health System is working with the University Health Plan and government waiver programs to begin management of specific patient populations, a key component of reform. It will actively work with other healthcare providers locally and statewide, and may form strategic alliances when beneficial to our patients and the Medical Center. Administrative functions continue to be consolidated across the Medical Center, eliminating redundancy wherever possible.

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.** (OSUP), the University's central practice group for physician faculty members of the College of Medicine and Public Health, continue to grow in 2012. Total consolidated operating revenues grew from $282 million to $298 million as a result of increased rates from contractual negotiations and support from the university. Total consolidated OSUP expenses (excluding depreciation, interest and interfund transfers) were relatively flat, increasing $2 million, to $266 million in 2012.

OSUP is the single member of 18 limited liability companies (LLCs). As of June 30, 2012 only 16 of the limited liability companies were active. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no 2012 activity within OSUP.

Total state operating support declined by $71 million, or 14%, in 2012. **State share of instruction and line-item appropriations** decreased $11 million, to $428 million in 2012. **Federal fiscal stabilization funds**, which totaled $60 million in 2011, were provided only for the 2010-2011 biennium.

Non-endowment gifts to the university (including gifts for current use and gifts to capital projects) increased $39 million, to $159 million in 2012. New gift **additions to permanent endowments** increased $10 million, to $41 million. During 2012, a new record of 211,000 donors made gifts to the university; the next highest year was 2011 at 177,322.

University investments yielded $60 million of **net investment income** in 2012. The net investment income figure includes $70 million of interest and dividend income and $10 million net decrease in the fair value of university investments.

The fiscal year ended June 30, 2012 was challenging for investment markets. The Long-Term Investment Pool net return was essentially flat at negative 0.14%, as compared with the All Country World Index (ACWI) which experienced a negative 5.96% return. The three-year annualized return for The Long-Term Investment Pool was positive 10.5%, comparing favorably to its overall policy benchmark of 8.9%.

Macroeconomic issues weighed heavily on global markets throughout the year. These included the U.S. debt ceiling and deficit, the health care debate, the uncertainty of tax policy beyond 2012, the ongoing European debt crisis, the sell-off of emerging markets investments, and the slowdown in China.

These issues caused a great deal of volatility in the markets on a daily basis. Markets were generally very negative in the first half of the fiscal year and mildly positive in the second half. International and Emerging Markets were negative (14-16%) for the fiscal year, while U.S. equity markets were mixed with large-cap stocks being positive and small and mid-cap stocks being negative. U.S. Government Bonds won the day as money poured into U.S. debt as a "safe" haven.

Prior-Year Highlights: *In 2011*, total university net assets increased $530 million, primarily due to $365 million of net investment income and strong operating results for the OSU Health System. ***In 2010***, university investments yielded $324 million of net investment income, recovering a significant portion of the net investment loss experienced in 2009. Total Health System operating revenues increased $114 million.

Statement of Cash Flows

Total university cash and cash equivalents increased $259 million in 2012. Net cash flows from operating activities increased $1 million, with increases in sales and service and tuition receipts offsetting increases in payments for wages, supplies and services. Net cash flows from noncapital financing activities decreased $62 million, reflecting the loss of the $60 million in federal fiscal stabilization funds and an $11 million reduction in state operating support. Net cash from capital financing activities swung from a positive $198 million to a negative $137 million, primarily due to lower levels of net debt issuance in 2012 and higher levels of capital expenditures on the Medical Center expansion, south campus dorm expansion and other major projects. Total cash provided by investing activities was $15 million, with cash provided by sales of temporary investments, interest and dividends offsetting net purchases of shares in the Long-Term Investment Pool.

University Cash Flows Summary (in thousands)

	2012	2011	2010
Net cash flows from operating activities	$(261,798)	$(262,829)	$(356,277)
Net cash flows from noncapital financing activities	642,267	704,276	663,725
Capital appropriations and gifts for capital projects	68,038	79,099	41,334
Proceeds from issuance of bonds and notes payable	521,155	902,117	337,113
Payments for purchase and construction of capital assets	(577,739)	(445,460)	(332,448)
Principal and interest payments on capital debt, net of federal Build America Bond interest subsidies	(148,810)	(337,668)	(385,506)
Net cash flows from investing activities	15,427	(239,169)	(24,130)
Net increase (decrease) in cash	$258,540	$400,366	$(56,189)

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

As Fiscal Year 2012 drew to a close, the nation continued to slowly recover from its deepest recession in 50 years. In 2012, the State of Ohio reduced annual operating support to the university by 14%, primarily due to the expiration of federal fiscal stabilization funds, which were provided in 2010 and 2011 under the American Recovery and Reinvestment Act. Although the State of Ohio's finances have continued to improve over the past year and are projected to be stable in 2013, the university will have absorbed total cuts in state operating support of over $120 million for the 2012-2013 biennium.

Moderate tuition increases are a necessary component of the university's strategy to address these reductions in state funding. Undergraduate instructional and general fees have been increased 3.4% for Autumn Semester 2012. The university did not increase any of the mandatory student fees for Fiscal Year 2013, reducing the overall increase for resident undergraduate tuition and fees to 3.2%.

University leadership does not take these tuition increases lightly and recognizes that rising levels of student debt are among our leading national challenges. For the 2012-2013 academic year, the Board of Trustees has approved an additional $50 million for student financial aid and scholarships. The infusion of funds will not only help attract the best and brightest students, but also will allow the university to increase need-based aid and help an additional 1,300 students each year to achieve the dream of a college degree.

Since President E. Gordon Gee's return to Ohio State in 2007, the university has embarked on a multi-phase strategic planning process to move the university from excellence in eminence in public higher education. Our vision is to become the world's preeminent public comprehensive university, solving problems of world-wide significance. As our Executive Vice President and Provost, Joseph A. Alutto, noted in his April 2012 strategic planning presentation to the Board of Trustees, the quality of a university is greatly determined by:

- the number and quality of faculty actively involved in teaching and research
- the ability to provide outstanding students with access to high-quality programs regardless of economic background
- enhanced on-campus experiences supporting students' aspirations for growth and career goals, and
- development of sufficient resources to support these critical facets of university life

Given the numerous and competing demands on the State of Ohio to provide funding for governmental programs, it is clear that Ohio State cannot simply depend on state subsidies to realize its strategic goals. Instead, the university is committed to generating the necessary incremental resources for improvement through a variety of approaches, including identification of savings, redirection of existing funds, and innovative development of new funding sources. A prime example of these innovations is the September 21, 2012 lease and concession agreement for the university's parking facilities. In exchange for the right to operate the parking facilities over the next 50 years, QIC Global Infrastructure paid the university $483 million, which will be used to fund five new endowments. Over the next ten years, the university's long-range strategic plan calls for estimated resource generation of $2.1 billion, to be invested in new faculty, research and teaching ($300 million), continued increases in student financial aid ($200 million), enhancements to student residential experiences and support services ($100 million), and new facilities ($1.5 billion).

In addition to the new funding sources envisioned in the long-range strategic plan, private fundraising is critically important to realizing the university's academic goals. On October 4, 2012, the university launched the *But for Ohio State* fundraising campaign. The primary objectives of the $2.5 billion campaign are placing students first, elevating faculty, creating a modern learning environment, and emboldening our research agendas.

Based on what is now known regarding the university's financial outlook, university management anticipates that Ohio State will maintain its sound financial position in Fiscal Year 2013. However, the university is closely monitoring developments at the federal level related to budget sequestration. Federal budget sequestration is a process of across-the-board cuts to federal spending as a means to reduce the national deficit. Last year, when Congress and the White House could not agree on cuts to federal spending, a special Congressional "Supercommittee" was charged with establishing deficit-reduction legislation by January 2012. The committee failed to do so, and sequestration was automatically put into effect. Unless Congress and the White House reach a budget agreement, sequestration will occur in January 2013. This process could cut 8-10% from key federal programs that support students, faculty and patients at Ohio State. The university's Federal Relations team is working to demonstrate the potential negative impacts of sequestration to elected officials and collaborating with other universities and higher education associations to find a legislative solution.

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

Consolidated Statements

Net Assets

June 30, 2012, and June 30, 2011
(in thousands)

		2012		2011
ASSETS:				
Current Assets:				
Cash and cash equivalents	$	601,095	$	568,420
Temporary investments		738,866		947,937
Accounts receivable, net		471,903		402,181
Notes receivable - current portion, net		24,625		16,014
Pledges receivable - current portion, net		21,190		26,054
Accrued interest receivable		27,455		26,601
Inventories and prepaid expenses		83,636		81,698
Total Current Assets		1,968,770		2,068,905
Noncurrent Assets:				
Restricted cash		714,226		488,361
Notes receivable, net		48,585		57,028
Pledges receivable, net		46,555		25,110
Long-term investment pool		2,366,033		2,120,714
Other long-term investments		76,769		68,283
Capital assets, net		3,842,351		3,465,010
Total Noncurrent Assets		7,094,519		6,224,506
Total Assets	$	9,063,289	$	8,293,411
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Accounts payable and accrued expenses	$	442,165	$	392,275
Deposits and deferred revenues		231,545		228,550
Commercial paper and current portion of bonds, notes and leases payable		83,451		73,203
Long-term bonds payable, subject to remarketing		469,700		469,700
Other current liabilities		75,295		60,362
Total Current Liabilities		1,302,156		1,224,090
Noncurrent Liabilities:				
Bonds, notes and leases payable		1,923,833		1,490,810
Compensated absences		126,444		116,400
Self-insurance accruals		115,208		117,531
Amounts due to third-party payors - Health System		13,716		23,449
Obligations under annuity and life income agreements		34,088		35,540
Refundable advances for Federal Perkins loans		28,706		28,887
Other noncurrent liabilities		27,852		6,000
Total Noncurrent Liabilities		2,269,847		1,818,617
Total Liabilities		3,572,003		3,042,707
Net Assets:				
Invested in capital assets, net of related debt		2,079,926		1,979,373
Restricted:				
Nonexpendable		1,200,473		1,217,323
Expendable		603,108		592,082
Unrestricted		1,607,779		1,461,926
Total Net Assets		5,491,286		5,250,704
Total Liabilities and Net Assets	$	9,063,289	$	8,293,411

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

Consolidated Statements

Revenues, Expenses, and Other Changes in Net Assets

Years ended June 30, 2012, and June 30, 2011
(in thousands)

	2012	2011
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of $136,740 and $137,334, respectively)	$ 793,742	$ 732,688
Federal grants and contracts	367,466	345,277
State grants and contracts	48,061	42,212
Local grants and contracts	16,020	18,029
Private grants and contracts	203,061	199,018
Sales and services of educational departments	112,574	121,773
Sales and services of auxiliary enterprises (net of scholarship allowances of $17,228 and $18,153, respectively)	233,020	232,482
Sales and services of the OSU Health System, net	1,921,897	1,706,037
Sales and services of OSU Physicians, Inc., net	298,114	282,144
Other operating revenues	71,352	75,659
Total Operating Revenues	4,065,307	3,755,319
Operating Expenses:		
Educational and General:		
Instruction and departmental research	880,042	843,406
Separately budgeted research	447,213	440,756
Public service	109,714	110,357
Academic support	162,783	147,845
Student services	90,493	88,604
Institutional support	224,377	243,827
Operation and maintenance of plant	105,346	115,091
Scholarships and fellowships	110,748	102,631
Auxiliary enterprises	239,570	244,787
OSU Health System	1,697,628	1,484,405
OSU Physicians, Inc.	266,411	264,399
Depreciation	242,391	239,351
Total Operating Expenses	4,576,716	4,325,459
Operating Loss	(511,409)	(570,140)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	428,306	439,576
Federal fiscal stabilization funds	-	60,063
Federal subsidies for Build America Bonds interest	11,252	8,283
Federal non-exchange grants	57,466	59,244
State non-exchange grants	5,185	6,359
Gifts	139,599	103,754
Net investment income	60,177	365,108
Interest expense on plant debt	(59,734)	(57,847)
Other non-operating revenues	7,181	5,710
Net Non-operating Revenue	649,432	990,250
Income before Other Revenues, Expenses, Gains or Losses	138,023	420,110
Other Changes in Net Assets		
State capital appropriations	42,188	62,732
Private capital gifts	19,072	16,398
Additions to permanent endowments	41,299	30,835
Total Other Changes in Net Assets	102,559	109,965
Increase in Net Assets	240,582	530,075
Net Assets - Beginning of Year	5,250,704	4,720,629
Net Assets - End of Year	$ 5,491,286	$ 5,250,704

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

Consolidated Statements

Cash Flows

Years ended June 30, 2012, and June 30, 2011
(in thousands)

	2012	2011
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 698,512	$ 636,664
Grant and contract receipts	626,918	617,483
Receipts for sales and services	2,500,593	2,383,266
Payments to or on behalf of employees	(2,218,575)	(2,088,464)
University employee benefit payments	(565,925)	(566,773)
Payments to vendors for supplies and services	(1,298,300)	(1,229,704)
Payments to students and fellows	(100,048)	(92,651)
Student loans issued	(10,495)	(10,717)
Student loans collected	10,024	9,450
Student loan interest and fees collected	2,152	2,274
Other receipts	93,346	76,343
Net cash used by operating activities	(261,798)	(262,829)
Cash Flows from Noncapital Financing Activities:		
State share of instruction and line-item appropriations	428,306	439,576
Federal fiscal stabilization funds	-	60,063
Non-exchange grant receipts	62,651	65,603
Gift receipts for current use	123,018	98,942
Additions to permanent endowments	41,299	30,833
Drawdowns of federal direct loan proceeds	386,400	410,355
Disbursements of federal direct loans to students	(397,721)	(401,346)
Disbursement of loan proceeds to related organization	(101)	(2,268)
Repayment of loans from related organization	217	1,068
Amounts received for annuity and life income funds	1,848	5,301
Amounts paid to annuitants and life beneficiaries	(3,761)	(3,833)
Agency funds receipts	2,805	2,780
Agency funds disbursements	(2,694)	(2,798)
Net cash provided by noncapital financing activities	642,267	704,276
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	521,155	902,117
State capital appropriations	48,966	62,701
Gift receipts for capital projects	19,072	16,398
Payments for purchase or construction of capital assets	(577,739)	(445,460)
Principal payments on capital debt and leases	(77,787)	(282,492)
Interest payments on capital debt and leases	(82,275)	(62,522)
Federal subsidies for Build America Bonds interest	11,252	7,346
Net cash provided (used) by capital financing activities	(137,356)	198,088
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	209,071	(360,409)
Proceeds from sales and maturities of long-term investments	614,242	1,262,273
Investment income	65,899	54,370
Purchases of long-term investments	(873,785)	(1,195,403)
Net cash provided (used) by investing activities	15,427	(239,169)
Net Increase in Cash	258,540	400,366
Cash and Cash Equivalents - Beginning of Year	1,056,781	656,415
Cash and Cash Equivalents - End of Year	$ 1,315,321	$ 1,056,781

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

Cash Flows (continued)

Years ended June 30, 2012, and June 30, 2011
(in thousands)

	2012	2011
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$ (511,409)	$ (570,140)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation expense	242,391	239,351
Changes in assets and liabilities:		
Accounts receivable, net	(65,179)	31,245
Notes receivable, net	(284)	(325)
Accrued interest receivable	(836)	(1,074)
Inventories and prepaid expenses	(1,938)	(6,031)
Accounts payable and accrued liabilities	30,412	2,706
Self-insurance accruals	13,373	1,368
Amounts due to third-party payors - Health System	(9,733)	(2,967)
Deposits and deferred revenues	27,909	19,845
Compensated absences	13,891	15,699
Refundable advances for Federal Perkins loans	(181)	(68)
Other liabilities	(214)	7,562
Net cash used by operating activities	$ (261,798)	$ (262,829)
Non Cash Transactions:		
Capital Lease	$ 10,473	$ 422
Construction in Process in Accounts Payable	57,362	41,062
Stock Gifts	8,815	8,812

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

for the Years Ended June 30, 2012 and 2011

All dollar figures stated in these Notes are in thousands.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

ORGANIZATION

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

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

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

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

BASIS OF PRESENTATION

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

- 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
- Fourteen 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 Health Plan, Inc.
  - The Ohio State University Physicians, Inc.
  - Prologue Research International, Inc.
  - Oval Limited
  - Adria Kravinsky Foundation (dissolved in Fiscal Year 2012)
  - Dental Faculty Practice Association, Inc.
  - OSU Global Gateways, LLC
  - BioHio Research Park, Inc.

NOTE 1 — Continued

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, cash restricted for capital projects and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted - nonexpendable:** Net assets subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the university. These assets primarily consist of the university's permanent endowments.
- **Restricted - expendable:** Net assets whose use is subject to externally-imposed stipulations that can be fulfilled by actions of

NOTE 1 — Continued

the university pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. 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, savings accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Government obligations, U.S. Agency obligations, repurchase agreements and money market funds. Restricted cash consists of bond proceeds restricted for capital expenditures.

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. As of June 30, 2012, the university has made commitments to limited partnerships totaling $522,000 that have not yet been funded. These commitments may extend for a maximum of thirteen years. In the prior fiscal year, the university had made commitments to limited partnerships totaling $474,000 that had not yet been funded as of June 30, 2011.

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, 2012, are $4,830 and $13,511, respectively. The carrying and market values of real estate at June 30, 2011, are $3,862 and $14,474, respectively.

Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

NOTE 1 — Continued

ENDOWMENT POLICY

All endowments are invested in the university's Long-Term Investment Pool, which consists of more than 4,650 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 (UPMIFA), as adopted in Ohio, permits the university's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems prudent. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long-Term Investment Pool.

Annual distributions to named funds in the Long-Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is 4.25% of the average market value per share of the Long-Term Investment Pool over the most recent seven year period.

At June 30, 2011, the market value of the university's gifted endowments was $1,405,646, which is $170,967 above the historical dollar value of $1,234,679. At June 30, 2012, the market value of the university's gifted endowments was $1,379,531, which is $91,484 above the historical dollar value of $1,288,047. Although the market value of the gifted endowments in total exceeds the historical cost at June 30, 2012, there are 2,749 named funds that remain underwater. The market value of these underwater funds at June 30, 2012, is $772,701, which is $142,347 below the historical dollar value of $915,048. Per UPMIFA (§1715.53(D)(C)), the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

GIFT PLEDGES RECEIVABLE

The university receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

INVENTORIES

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

CAPITAL ASSETS AND COLLECTIONS

Capital assets are long-life assets in the service of the university and include land, buildings, improvements, equipment, software and library books. Capital assets are stated at cost or 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

NOTE 1 — Continued

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. $25,601 and $15,674 of interest was capitalized in the years ended June 30, 2012 and 2011, 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 statement of net assets 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 Health System and other health sciences teaching facilities, The Ohio State University Extension, the Ohio Agricultural Research and Development Center, and the Center for Labor Research.

NOTE 1 — Continued

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 statement of net assets. 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.

OSU HEALTH SYSTEM 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 Health System contests certain issues resulting from examination of prior years' reimbursement reports. The accompanying financial statements include provisions for estimated retroactive adjustments arising from such examinations and contested issues. The Health System recognizes settlements of protested adjustments or appeals upon resolution of the matters. Patient revenues are recorded net of contractual allowances, charity care and bad debt expenses.

OSU PHYSICIANS REVENUE

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payers for services rendered net of contractual allowances, charity care and bad debt expenses. 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.

NOTE 1 — Continued

CHARITY CARE AND COMMUNITY BENEFIT

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSU Physicians. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off as administrative adjustments and not reported as net patient service revenue. OSU Health System and OSU Physicians maintain records to identify and monitor the level of charity care provided, including the amount of charges foregone for services rendered. Net charity care costs for the OSU Health System as of June 30, 2012 and 2011, are $38,482 and $39,712, respectively, after applying reductions of $23,009 and $24,603, respectively, for support received under the Health Care Assurance Program (HCAP). HCAP is administered by the State of Ohio to help hospitals cover a portion of the cost of providing charity care. Charity care costs for OSU Physicians as of June 30, 2012 and 2011, are $12,296 and $6,091, respectively.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles, generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2010, GASB issued Statement No. 60, *Accounting and Reporting for Service Concession Arrangements*. This standard provides guidance on accounting for agreements where a government transfers the right to operate a government asset to another entity, in exchange for significant consideration from that entity. Upfront payments from such agreements are to be recorded as a "deferred inflow of resources" and recognized as revenue over the life of the agreement. The standard also provides guidance for operators/concessionaires that are government entities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

Also in November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012.

In December 2010, GASB issued Statement No. 62, *Codification*

NOTE 1 — Continued

of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

In addition, this Statement eliminates the option, provided under GASB 20, to elect to apply non-conflicting post-1989 FASB standards. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term 'deferred' in financial statement presentations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

Also in March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial*

NOTE 1 — Continued

Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for certain operating lease payments, purchases of loans and mortgage loan servicing fees. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

In June 2012, the GASB issued two related accounting standards, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and expands required note disclosures and Required Supplementary Information. It is effective for periods beginning after June 15, 2013.

Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position (currently known as the statement of net assets) a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. Statement No. 68 also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. It is effective for periods beginning after June 15, 2014.

University management is currently assessing the impact that implementation of GASB Statements No. 60, 61, 62, 63, 65, 66, 67 and 68 will have on the university's financial statements.

OTHER

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

Certain reclassifications have been made to the 2011 comparative information to conform with the 2012 presentation.

REVISIONS

The statement of revenues, expenses and changes in net assets for the year ended June 30, 2011, has been revised to correctly present bad debt expense for the OSU Health System and OSU Physicians, Inc. as reductions of patient care revenue and to reclassify reimbursements of OSU Physicians' expenses charged to the College of Medicine as reductions of expense. The following table summarizes the effect of these revisions on the statement of revenues, expenses and changes in net assets:

	As originally reported	Adjustments	As adjusted
Private grants and contracts	$ 238,919	$ (39,901)	$ 199,018
Sales and services of the OSU Health System	1,785,329	(79,292)	1,706,037
Sales and services of OSU Physicians, Inc.	311,476	(29,332)	282,144
Instructional and departmental research	883,307	(39,901)	843,406
OSU Heath System expense	1,563,697	(79,292)	1,484,405
OSU Physicians, Inc. expense	293,731	(29,332)	264,399

NOTE 1 — Continued

Related to these revisions, the statement of cash flows was also revised for the year ended June 30, 2011, to reclassify bad debt expense to receipts for sales and services and to reclassify reimbursements of OSU Physicians' expenses from grant and contract receipts to payments to vendors for supplies and services.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2012, the carrying amount of the university's cash, cash equivalents and restricted cash for all funds is $1,315,321 as compared to bank balances of $1,308,345. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $46,856 is covered by federal deposit insurance and $1,261,489 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks. The university considers highly liquid investments with maturities of three months or less as cash and cash equivalents.

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 operations. The target is to maximize value while protecting the liquidity of the assets. Under the university's investment policies, Temporary Investment funds may be invested in the following instruments with varying maturities:

- 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 generation of a predictable stream of 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 target of the Long-Term Investment Pool is to drive the asset allocation to areas of relative advantage over a 3-5 year scenario while maintaining strong diversification and to utilize the liquidity of the pool for our long-term advantage.

NOTE 3 — Continued

The benchmarks are designed to focus on consistent risk-adjusted returns that, over a multiple year period, will provide consistent, positive returns which, in turn, will provide the university with appropriate funding and real growth to its corpus after inflation.

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 and money market instruments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at the Fifth Third Bank and BNY Mellon in "book entry" form. The banks internally designate the securities as owned by or pledged to the university.

The cash and cash equivalents amount represents cash held in the long-term investment pool by various investment managers as of June 30, 2012. Such amounts were generated through sales of investments in the long-term investment pool. Subsequently, the cash and cash equivalents will be used to purchase long-term investments.

Total university investments by major category at June 30, 2012 and 2011, are as follows:

	2012	2011
Temporary Investments	$ 738,866	$ 947,937
Long-Term Investment Pool:		
Gifted Endowment – university	878,707	921,219
Gifted Endowment – OSU Foundation	500,824	484,427
Operating Endowment	986,502	715,068
Total Long-Term Investment Pool	2,366,033	2,120,714
Other Long-Term Investments	76,769	68,283
Total Investments	$ 3,181,668	$ 3,136,934

NOTE 3 — Continued

Total university investments by investment type at June 30, 2012, are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ -	$ 253,125	$ -	$ 253,125
Equity mutual funds	58,196	107,742	21,086	187,024
U.S. government obligations	72,727	6,323	3,853	82,903
U.S. government agency obligations	131,034	13,070	-	144,104
Repurchase agreements	129,443	50,000	-	179,443
Corporate bonds and notes	233,410	50,784	279	284,473
Bond mutual funds	98,511	-	22,177	120,688
Foreign government bonds	3,586	28,265	-	31,851
Real estate	146	-	4,788	4,934
Partnerships and hedge funds	-	1,729,258	975	1,730,233
Cash and cash equivalents	-	124,218	-	124,218
Other	11,813	3,248	23,611	38,672
Total	$ 738,866	$ 2,366,033	$ 76,769	$ 3,181,668

Total university investments by investment type at June 30, 2011, are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 16	$ 286,538	$ -	$ 286,554
Equity mutual funds	57,693	81,735	22,432	161,860
U.S. government obligations	122,691	10,504	3,818	137,013
U.S. government agency obligations	166,553	13,008	-	179,561
Repurchase agreements	258,424	33,000	-	291,424
Corporate bonds and notes	232,438	96,562	278	329,278
Bond mutual funds	84,964	-	20,169	105,133
Foreign government bonds	3,004	33,132	-	36,136
Real estate	146	-	3,747	3,893
Partnerships and hedge funds	-	1,505,590	1,045	1,506,635
Cash and cash equivalents	-	55,010	-	55,010
Other	22,008	5,635	16,794	44,437
Total	$ 947,937	$ 2,120,714	$ 68,283	$ 3,136,934

NOTE 3 — Continued

The components of the net investment income are as follows:

	Interest and Dividends (net)	Net Increase (Decrease) in Fair Value of Investments	Net Investment Income (Loss)
Temporary Investments	$ 22,481	$ (5,552)	$ 16,929
Long-Term Investment Pool	46,393	(5,740)	40,653
Other Long-Term Investments	1,008	1,587	2,595
Total 2012	$ 69,882	$ (9,705)	$ 60,177
Total 2011	$ 68,572	$ 296,536	$ 365,108

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, 2012, are as follows:

		Investment Maturities (in years)			
	Fair Value	< 1	1 to 5	6 to 10	> 10
U.S. government obligations	$ 82,903	$ 8,200	$ 67,593	$ 4,545	$ 2,565
U.S. agency obligations	144,104	21,464	82,760	20,657	19,223
Repurchase agreements	179,443	179,443	-	-	-
Corporate bonds	284,473	54,993	189,984	24,513	14,983
Bond mutual funds	120,688	9,707	65,504	30,078	15,399
Other governmental bonds	4,019	-	770	-	3,249
Foreign governmental bonds	31,851	4,000	14,778	10,242	2,831
Total	$ 847,481	$ 277,807	$ 421,389	$ 90,035	$ 58,250

The maturities of the university's interest-bearing investments at June 30, 2011, are as follows:

		Investment Maturities (in years)			
	Fair Value	< 1	1 to 5	6 to 10	> 10
U.S. government obligations	$ 137,013	$ 19,602	$ 111,093	$ 5,044	$ 1,274
U.S. agency obligations	179,561	14,362	123,632	20,586	20,981
Repurchase agreements	291,424	291,424	-	-	-
Corporate bonds	329,278	25,764	231,847	46,323	25,344
Bond mutual funds	105,133	11,337	55,295	26,093	12,408
Other government bonds	6,432	797	-	221	5,414
Foreign government bonds	36,136	6,290	12,038	15,326	2,482
Total	$1,084,977	$ 369,576	$ 533,905	$ 113,593	$ 67,903

NOTE 3 — Continued

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

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3 (GASB 40), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of June 30, 2012 and 2011.

The credit ratings of the university's interest-bearing investments at June 30, 2012, are as follows:

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	Other Government Bonds	International Bonds
AAA	$ 148,535	$ -	$ -	$ 59,540	$ 79,656	$ 1,220	$ 8,119
AA	464,216	225,004	179,443	45,404	4,614	2,658	7,093
A	160,828	932	-	122,902	27,884	141	8,969
BBB	59,481	1,071	-	49,116	7,218	-	2,076
BB	3,234	-	-	3,230	4	-	-
B	792	-	-	791	1	-	-
CCC	1,529	-	-	420	1,109	-	-
CC	-	-	-	-	-	-	-
C	-	-	-	-	-	-	-
Not rated	8,866	-	-	3,070	202	-	5,594
Total	$ 847,481	$ 227,007	$ 179,443	$ 284,473	$ 120,688	$ 4,019	$ 31,851

The credit ratings of the university's interest-bearing investments at June 30, 2011, are as follows:

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	Other Government Bonds	International Bonds
AAA	$ 783,397	$ 314,669	$ 291,424	$ 90,068	$ 75,968	$ 1,162	$ 10,106
AA	67,108	-	-	39,003	12,212	3,255	12,638
A	131,078	-	-	115,881	10,082	2,015	3,100
BBB	75,312	1,905	-	66,556	5,562	-	1,289
BB	6,502	-	-	6,469	33	-	-
B	1,114	-	-	1,017	97	-	-
CCC	922	-	-	379	543	-	-
CC	73	-	-	-	73	-	-
C	180	-	-	-	180	-	-
Not Rated	19,291	-	-	9,905	383	-	9,003
Total	$ 1,084,977	$ 316,574	$ 291,424	$ 329,278	$ 105,133	$ 6,432	$ 36,136

NOTE 3 — Continued

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, 2012, the university's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	Foreign Government Bonds	Private Equity
Australian dollar	$ 981	$ 2,772	$ 146	$ 7	$ 749	$ 26,726
Brazilean real	2,749	846	(1)	1,054	-	-
Canadian dollar	-	1,968	387	30	5,323	-
Chilean peso	-	129	-	-	-	-
Chinese yuan	-	1,103	-	-	-	-
Columbian peso	-	56	-	-	-	-
Czech Republic koruna	957	286	-	-	-	-
Danish krone	-	215	115	-	-	-
Egyptian pound	822	20	-	-	-	-
Euro	4,754	14,256	4,513	13,056	4,324	39,248
Great Britain pound sterling	5,191	20,724	1,076	91	4,548	-
Hong Kong dollar	14,020	1,764	-	-	-	-
Hungarian forint	-	26	-	-	-	-
Indian rupee	3,294	469	-	-	-	-
Indonedian rupiah	971	180	(1)	-	-	-
Israeli shekel	-	125	-	-	-	-
Japanese yen	1,331	17,308	6,013	-	6,902	-
Malaysian ringgit	-	251	1	-	-	-
Mexican peso	1,635	785	347	128	4,099	-
Moroccan dirham	-	-	-	-	-	-
New Taiwan dollar	5,820	705	-	-	-	-
New Zealand dollar	-	28	12	-	-	-
Norewegian krone	-	951	-	-	-	-
Peruvian nuevo sol	-	32	-	-	-	-
Phillippine peso	-	52	-	-	-	-
Polish zloty	-	78	(1)	-	-	-
Russian ruble	-	356	-	-	-	-
Singapore dollar	557	3,622	-	-	-	-
South African rand	7,935	548	64	-	-	-
South Korean won	8,206	1,012	2	-	-	-
Swedish krona	736	2,540	54	-	-	-
Swiss franc	3,791	3,232	-	-	-	-
Thailand bhat	628	1,155	-	-	-	-
Turkish lira	1,414	103	-	-	-	-
Total	$ 65,792	$ 77,697	$ 12,727	$ 14,366	$ 25,945	$ 65,974

NOTE 3 — Continued

At June 30, 2011, the university's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	Foreign Government Bonds	Private Equity
Australian dollar	$ 56	$ 3,442	$ 74	$ (7)	$ 1,018	$ 28,818
Brazilian real	2,362	1,038	-	(64)	-	-
Canadian dollar	-	2,068	199	-	4,698	-
Chilean peso	-	126	-	-	-	-
Chinese yuan	-	1,105	287	-	-	-
Columbian peso	-	46	-	-	-	-
Czech Republic koruna	1,340	340	-	-	-	-
Danish krone	-	225	74	-	-	-
Egyptian pound	837	20	-	-	-	-
Euro	6,187	17,372	2,861	14,628	8,691	21,151
Great Britain pound sterling	9,214	20,493	632	577	4,650	-
Hong Kong dollar	5,308	2,081	-	-	-	-
Hungarian forint	-	26	-	-	-	-
Indian rupee	1,592	577	7	-	-	-
Indonesian rupiah	-	159	15	-	-	-
Israeli shekel	-	140	-	-	7	-
Japanese yen	1,064	17,879	3,346	(44)	8,733	-
Malaysian ringgit	-	1,259	15	-	-	-
Mexican peso	1,479	998	7	24	2,345	-
Moroccan dirham	-	-	-	-	-	-
New Taiwan dollar	6,602	729	7	-	-	-
New Zealand dollar	-	29	7	-	-	-
Norwegian krone	-	176	-	-	-	-
Peruvian nuevo sol	-	26	-	-	-	-
Phillippine peso	-	26	15	-	-	-
Polish zloty	-	106	-	-	-	-
Russian ruble	-	417	-	-	-	-
Singapore dollar	1,109	4,425	7	-	-	-
South African rand	8,069	509		-	-	-
South Korean won	10,153	986	-	-	-	-
Swedish krona	-	2,956	44	-	-	-
Swiss franc	7,509	4,576	-	-	-	-
Thailand bhat	467	1,398	-	-	-	-
Turkish lira	1,445	86	-	-	-	-
Total	$ 64,793	$ 85,839	$ 7,597	$ 15,114	$ 30,142	$ 49,969

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2012 and 2011, consist of the following:

	2012	2011
Patient receivables - OSU Health System	$ 998,615	$ 765,750
Patient receivables - OSU Physicians, Inc.	104,744	87,046
Grant and contract receivables	75,267	71,453
Tuition and fees receivable	43,116	55,172
Receivables for departmental and auxiliary sales and services	40,807	72,166
State and federal receivables	24,460	19,917
Other receivables	45	60
Total receivables	1,287,054	1,071,564
Less: Allowances for doubtful accounts	815,151	669,383
Total receivables, net	$ 471,903	$ 402,181

Allowances for doubtful accounts consist primarily of patient receivables of the OSU Health System and OSU Physicians, Inc.

Notes receivable consist primarily of Perkins and health professions loans and are net of an allowance for doubtful accounts of $20,000 at June 30, 2012, and $19,000 at June 30, 2011. 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 $72,643 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,898 at June 30, 2012. The university recorded $59,879 in non-endowment pledges receivable and a related allowance for doubtful accounts of $8,715 at June 30, 2011.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 74,013	$ 1,695	$ 25	$ 75,683
Construction in progress	535,908	375,482	-	911,390
Total non depreciable assets	609,921	377,177	25	987,073
Capital assets being depreciated:				
Improvements other than buildings	309,297	4,360	-	313,657
Buildings and fixed equipment	4,020,588	112,681	9,235	4,124,034
Movable equipment, furniture and software	964,056	130,182	38,228	1,056,010
Library books	159,541	4,076	1,367	162,250
Total	5,453,482	251,299	48,830	5,655,951
Less: Accumulated depreciation	2,598,393	242,391	40,111	2,800,673
Total depreciable assets, net	2,855,089	8,908	8,719	2,855,278
Capital assets, net	$ 3,465,010	$ 386,085	$ 8,744	$ 3,842,351

Capital assets activity for the year ended June 30, 2011, is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 73,926	$ 87	-	$ 74,013
Construction in progress	273,226	262,682	-	535,908
Total non depreciable assets	347,152	262,769	-	609,921
Capital assets being depreciated:				
Improvements other than buildings	281,996	27,301	-	309,297
Buildings and fixed equipment	3,939,159	86,882	$ 5,453	4,020,588
Movable equipment, furniture and software	922,719	96,928	55,591	964,056
Library books	163,012	4,755	8,226	159,541
Total	5,306,886	215,866	69,270	5,453,482
Less: Accumulated depreciation	2,422,904	239,351	63,862	2,598,393
Total depreciable assets, net	2,883,982	(23,485)	5,408	2,855,089
Capital assets, net	$ 3,231,134	$ 239,284	$ 5,408	$ 3,465,010

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, 2012 and 2011, consist of the following:

	2012	2011
Payables to vendors for supplies and services	$ 256,639	$ 212,561
Accrued compensation and benefits	90,149	114,887
Retirement system contributions payable	54,243	35,729
Other accrued expenses	41,134	29,098
Total payables and accrued expenses	$ 442,165	$ 392,275

NOTE 7 – DEPOSITS AND DEFERRED REVENUES

Deposits and deferred revenues at June 30, 2012 and 2011, consist of the following:

	2012	2011
Current deposits and deferred revenues:		
Tuition and fees	$ 49,261	$ 59,141
Departmental and auxiliary sales and services	111,373	87,599
Grants and contracts advances	66,678	70,311
Other deposits and deferred revenues	4,233	11,499
Total current deposits and deferred revenues	$ 231,545	$ 228,550
Other non-current liabilities	$ 27,852	$ 6,000

NOTE 8 – SELF-INSURANCE ACCRUALS

The Health System has 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. Effective July 1, 2008, 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)
7/1/08 – 6/30/12	$55,000,000
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

NOTE 8 — Continued

actuarial determination as of June 30, 2012. OSU Physicians, Inc. participates in the university self-insurance fund for professional medical malpractice liability claims.

The Heath System's estimate of professional malpractice liability includes provisions for known claims and actuarially determined estimates of incurred but not reported claims and incidents. This liability at June 30, 2012, of the anticipated future payments on gross claims is estimated at its present value of $83,235 discounted at an estimated rate of 3.0% (university funds) and an additional $35,104 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 $158,792 (which primarily consist of bond and equity mutual funds, money market funds and U.S. treasury notes) are more than the recorded liability at June 30, 2012, and the surplus of $40,453 is included in unrestricted net assets.

The university is also self-insured for employee health insurance. As of June 30, 2012, $42,703 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, 2010, result from the following activities:

	Malpractice		Health	
	2012	2011	2012	2011
Liability at beginning of fiscal year	$ 120,631	$ 118,863	$ 29,507	$ 25,950
Current year claims, changes in estimates	839	5,143	287,730	281,744
Claim payments	(3,131)	(3,375)	(274,534)	(278,187)
Balance at fiscal year end	$ 118,339	$ 120,631	$ 42,703	$ 29,507

NOTE 9 — DEBT

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

Debt activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 3,325	$ -	$ 250	$ 3,075	$ 250
Transportation Research Center - Capital One Funding Corporation, due through 2014	933	-	290	643	310
OSU Physicians - Fifth Third Note, due through 2012	1,414	-	1,414	-	-
OSU Physicians - Fifth Third Note, due through 2035	17,030	15	1,015	16,030	695
OSU Physicians - Fifth Third Note, due through 2013	130	-	53	77	53
Campus Partners - ESIC	10,433	-	10,433	-	
Campus Partners - UDCDE Note A	22,124	-	265	21,859	21,859
Campus Partners - UDCDE Note B	10,376	-	-	10,376	-
Campus Partners - CCF Loan, City of Columbus	125	-	-	125	125
Campus Partners - Affordable Housing Trust Loan	500	-	500	-	-
General Receipts Bonds - Fixed Rate:					
2002A, due serially through 2031	12,780	-	8,650	4,130	4,130
2003B, due serially through 2033	36,435	-	7,135	29,300	7,390
2005A, due serially through 2035	198,255	-	18,225	180,030	11,400
2008A, due serially through 2028	193,105	-	12,840	180,265	13,390
2010A, due serially through 2020	239,090	-	7,130	231,960	17,865
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	88,335	-	-	88,335	-
2011, due 2111	-	500,000	-	500,000	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	11,800	-	-	11,800	11,800
2001, due serially through 2032	56,540	-	-	56,540	56,540
2003C, due serially through 2031	53,230	-	-	53,230	53,230
2005B, due serially through 2035	78,735	-	-	78,735	78,735
2008B, due serially through 2028	102,235	-	-	102,235	102,235
2010E, due serially through 2035	150,000	-	-	150,000	150,000
Capital Lease Obligations	15,008	10,473	5,229	20,252	5,984
	1,973,883	510,488	73,429	2,410,942	553,151
Unamortized Bond Premiums	59,830	10,570	4,358	66,042	-
Total outstanding debt	$ 2,033,713	$ 521,058	$ 77,787	$ 2,476,984	$ 553,151

NOTE 9 — Continued

Debt activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series J	$ 121,000	-	$ 121,000	-	-
Notes:					
WOSU	-	$ 3,450	125	3,325	250
Transportation Research Center – Capital One Funding Corporation, due through 2014	1,201	-	268	933	290
OSU Physicians – Fifth Third Note, due through 2012	1,610	-	196	1,414	1,414
OSU Physicians – Fifth Third Note, due through 2035	17,440	250	660	17,030	660
OSU Physicians – Fifth Third Note, due through 2013	-	186	56	130	53
Campus Partners - ESIC	10,833	-	400	10,433	10,433
Campus Partners - UDCDE Note A	22,373	-	249	22,124	265
Campus Partners - UDCDE Note B	10,376	-	-	10,376	-
Campus Partners – Mortgage Payable	411	-	411	-	-
Campus Partners – CCF Loan, City of Columbus	125	-	-	125	125
Campus Partners – Affordable Housing Trust Loan	-	500	-	500	500
Clifton Holding LLC	906	-	906	-	-
General Receipts Bonds – Fixed Rate:					
2002A, due serially through 2031	66,100	-	53,320	12,780	8,650
2003B, due serially through 2033	88,880	-	52,445	36,435	7,135
2005A, due serially through 2035	215,640	-	17,385	198,255	18,225
2008A, due serially through 2028	205,505	-	12,400	193,105	12,840
2010A, due serially through 2020	241,170	-	2,080	239,090	7,130
2010C, due 2040	-	654,785	-	654,785	-
2010D, due serially through 2032	-	88,335	-	88,335	-
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	18,410	-	1,250	17,160	17,160
1999B1, due serially through 2029	15,500	-	3,700	11,800	11,800
2001, due serially through 2032	56,540	-	-	56,540	56,540
2003C, due serially through 2031	57,605	-	4,375	53,230	53,230
2005B, due serially through 2035	78,735	-	-	78,735	78,735
2008B, due serially through 2028	102,235	-	-	102,235	102,235
2010E, due serially through 2035	-	150,000	-	150,000	150,000
Capital Lease Obligations	21,664	422	7,078	15,008	5,233
	$ 1,354,259	$ 897,928	$ 278,304	$ 1,973,883	$ 542,903
Unamortized Bond Premiums	49,826	14,193	4,189	59,830	-
Total outstanding debt	$ 1,404,085	$ 912,121	$ 282,493	$ 2,033,713	$ 542,903

NOTE 9 — Continued

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 2112. Maturities and interest on debt obligations for the next five years and in five-year periods are as follows:

	Principal	Interest	Total
2013	$ 553,151	$ 69,308	$ 622,459
2014	61,702	66,306	128,008
2015	62,372	64,450	126,822
2016	62,340	63,313	125,653
2017	64,973	62,177	127,150
2018-2022	220,877	294,768	515,645
2023-2027	134,259	261,203	395,462
2028-2032	78,856	234,555	313,411
2033-2037	17,626	225,267	242,893
2038-2042	654,786	203,590	858,376
2043-2047	-	120,000	120,000
2048-2052	-	120,000	120,000
2053-2057	-	120,000	120,000
2058-2062	-	120,000	120,000
2063-2067	-	120,000	120,000
2068-2072	-	120,000	120,000
2073-2077	-	120,000	120,000
2078-2082	-	120,000	120,000
2083-2087	-	120,000	120,000
2088-2092	-	120,000	120,000
2093-2097	-	120,000	120,000
2098-2102	-	120,000	120,000
2103-2107	-	120,000	120,000
2108-2112	500,000	96,000	596,000
	$ 2,410,942	$ 3,200,937	$ 5,611,879

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 $154,294 for future debt service which is included in unrestricted net assets.

The university has defeased various bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The defeased bonds are as follows:

	Amount Defeased	Amount Outstanding at June 30, 2012
Revenue Bonds:		
Series 2002A	$ 77,140	$ 77,140
Series 2003B	98,220	98,220
	$ 175,360	$ 175,360

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

NOTE 9 — Continued

VARIABLE RATE DEMAND BONDS

Series 1997, 1999B1, 2001, 2003C, 2005B, 2008B and 2010E 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, 2012, are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.947%
1999B1	12%	1.710%
2001	12%	1.480%
2003C	12%	1.778%
2005B	12%	1.540%
2008B	12%	0.467%
2010E	8%	0.138%

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 statement of net asset 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 $469,700 and $469,700 at June 30, 2012 and 2011, 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 were pledged to the payment of the Notes. The Notes were issued to provide for interim financing of various projects approved by the Board of Trustees.

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, 2012, are $50,734 and $20,252, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2011, are $43,012 and $15,008, respectively.

NOTE 9 — Continued

INTEREST RATE SWAP AGREEMENTS

In connection with the issuance of the Series 2011 General Receipts Bonds, also known as the Century Bonds, the university entered into an interest-rate lock agreement on October 3, 2011, for a notional amount of $300,000. The rate lock agreement, which was intended to fix the price on the bonds, was terminated on October 19, 2011. Upon termination, the university received a $20,307 termination fee from the counterparty. Under the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the agreement is considered an effective cash flow hedge under the consistent critical terms method. Accordingly, the termination fee has been deferred and will be amortized over the life of the Century Bonds as an offset of interest expense.

In addition, the university has two interest rate swap agreements that are not considered hedges under GASB Statement No. 53.

On January 6, 2009, 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 $16,030. 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 swap agreement and interest rates including the notional amount of $13,962 at June 30, 2012, and $14,471 at June 30, 2011, representing an unrealized loss of $2,400 and $1,800 included in other liabilities as of June 30, 2012, and June 30, 2011, respectively. OSUP records changes in fair value of the swap each quarter through the statements of revenues, expenses, and other changes in net assets ($560 loss and $28 gain for fiscal years 2012 and 2011, respectively). 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, Internal Medicine entered into a swap agreement fixing the interest rate on a $2,169 term loan which was used to fund a 40% interest in the Fresenius Partnership. In July 2011, Internal Medicine sold their investment in Fresenius using a portion of the proceeds from the sale to pay off the $1,400 loan and swap with Fifth Third Bank.

OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year as defined by GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. OSUP believes the swap value represents fair value.

NOTE 10 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the statement of net assets. The total rental expense under these agreements was $37,386 and $34,722 for the years ended June 30, 2012 and 2011, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2012, are as follows:

Year Ending June 30,	
2013	$ 22,742
2014	17,485
2015	15,431
2016	12,925
2017	12,154
2018-2022	38,746
2023-2027	20,206
2028-2032	12,921
2033-2037	733
2038-2042	723
2043-2047	578
Total minimum lease payments	$ 154,644

NOTE 11 — COMPENSATED ABSENCES

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

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

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

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

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

NOTE 12 — OTHER LIABILITIES

Other liability activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 124,687	$ 26,025	$ 12,134	$ 138,578	$ 12,134
Self-insurance accruals	150,138	291,068	277,664	163,542	48,334
Amounts due to third party payors	38,939	9,537	23,450	25,026	11,310
Obligations under life income agreements	39,518	1,848	3,761	37,605	3,517
Refundable advances for Federal Perkins loans	28,887	-	181	28,706	-
Other noncurrent liabilities	6,000	21,852	-	27,852	-
	$ 388,169	$ 350,330	$ 317,190	$ 421,309	$ 75,295

Other liability activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 108,988	$ 23,986	$ 8,287	$ 124,687	$ 8,287
Self-insurance accruals	144,813	286,888	281,563	150,138	32,607
Amounts due to third party payors	44,694	38,938	44,693	38,939	15,490
Obligations under life income agreements	38,050	1,468	-	39,518	3,978
Refundable advances for Federal Perkins loans	28,955	-	68	28,887	-
Other noncurrent liabilities	5,475	525	-	6,000	-
	$ 370,975	$ 351,805	$ 334,611	$ 388,169	$ 60,362

NOTE 13 – RENTALS UNDER OPERATING LEASES

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

Year Ending June 30,	
2013	$ 12,857
2014	11,210
2015	10,490
2016	9,112
2017	8,751
2018-2022	35,262
2023-2027	22,952
2028-2032	18,996
2033-2037	5,526
2038-2042	5,500
2043-2047	2,750
2048-2052	-
Total minimum lease payments	$ 143,406

NOTE 14 – OPERATING EXPENSES BY OBJECT

In accordance with requirements set forth by the Ohio Board of Regents, the university reports operating expenses by functional classification on the Statement of Revenues, Expenses and Other Changes in Net Assets. Operating expenses by object for the years ended June 30, 2012 and 2011, are summarized as follows:

Year Ended June 30, 2012	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 808,320	$ 71,722	$ -	$ -	$ 880,042
Separately budgeted research	287,514	159,699	-	-	447,213
Public service	75,029	34,685	-	-	109,714
Academic support	124,659	38,124	-	-	162,783
Student services	68,026	22,467	-	-	90,493
Institutional support	154,789	69,588	-	-	224,377
Operation and maintenance of plant	35,670	69,676	-	-	105,346
Scholarships and fellowships	7,216	3,484	100,048	-	110,748
Auxiliary enterprises	137,027	102,543	-	-	239,570
OSU Health System	986,718	710,910	-	-	1,697,628
OSU Physicians, Inc.	230,322	36,089	-	-	266,411
Depreciation	-	-	-	242,391	242,391
Total operating expenses	$ 2,915,290	$ 1,318,987	$ 100,048	$ 242,391	$ 4,576,716

Year Ended June 30, 2011	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 771,192	$ 72,214	$ -	$ -	$ 843,406
Separately budgeted research	289,792	150,964	-	-	440,756
Public service	79,555	30,802	-	-	110,357
Academic support	113,916	33,929	-	-	147,845
Student services	66,363	22,241	-	-	88,604
Institutional support	151,816	92,011	-	-	243,827
Operation and maintenance of plant	37,677	77,414	-	-	115,091
Scholarships and fellowships	6,154	3,826	92,651	-	102,631
Auxiliary enterprises	133,781	111,006	-	-	244,787
OSU Health System	894,055	590,350	-	-	1,484,405
OSU Physicians, Inc.	217,425	46,974	-	-	264,399
Depreciation	-	-	-	239,351	239,351
Total operating expenses	$ 2,761,726	$ 1,231,731	$ 92,651	$ 239,351	$ 4,325,459

NOTE 15 — RETIREMENT PLANS

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

STRS Ohio and OPERS each offer three separate plans:

1) a defined benefit plan,
2) a defined contribution plan and
3) a combined plan.

Each of these three options is discussed in greater detail in the following sections.

DEFINED BENEFIT PLANS

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

STRS Ohio	**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
strsoh.org	opers.org/investments/cafr.shtml

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 the Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2011, OPERS allocated 4.0% of the employer contribution rate to fund the health care program for retirees, and this rate was expected to remain the same for calendar year 2012 as of March 2012.

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

NOTE 15 — Continued

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, 2011, 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.

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,

NOTE 15 — Continued

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.

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 calendar year 2011, OPERS allocated 6.05% of the employer contribution rate to fund the health care program for retirees, and this rate was expected to remain the same for calendar year 2012 as of March 2012.

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 (7/11–12/11)		11.60%	11.60%
Plan member (1/12–6/12)		12.10%	12.10%
University (entire year)		18.10%	17.33%**

* 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, 2012, 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
2010	$ 52,500	$ 141,815	$ 39,014
2011	$ 54,725	$ 148,120	$ 40,835
2012	$ 58,006	$ 153,118	$ 43,523

NOTE 15 — Continued

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 $7,119 and $17,746 for the years ended June 30, 2012 and 2011, respectively. The reduction in Fiscal Year 2012 was directly related to physician integration into the Faculty Practice Group.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2012, the university is committed to future contractual obligations for capital expenditures of approximately $705,909.

These projects are funded by the following sources:

State appropriations	$ 128,452
Internal and other sources	577,457
Total	$ 705,909

NOTE 17 — CONTINGENCIES AND RISK MANAGEMENT

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

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

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

NOTE 18 — SUBSEQUENT EVENTS

BOND REFINANCING

On July 19, 2012, the university issued an offering statement for $91,165 in tax-exempt Fixed Rate General Receipts Bonds, Series 2012A and $23,170 in federally taxable General Receipts Bonds, Series 2012B. The Series 2012A bonds will have annual principal payments until final maturity on June 1, 2030, with interest rates ranging from 2.00% to 5.00%. The Series 2012B bonds will have annual principal payments until final maturity on June 1, 2033, with interest rates ranging from 0.476% to 3.673%. The proceeds of the Series 2012 bond issues will be used to refund existing bond obligations.

PARKING LEASE AND CONCESSION AGREEMENT

On September 21, 2012, the university entered into a 50-year lease and concession agreement with QIC Global Infrastructure, and its operating affiliate, CampusParc LP, to operate the university's parking facilities. The total up-front payment under the agreement is $483,000. On June 28, 2012, the university received a $22,000 deposit, which is reflected in the June 30, 2012, Statement of Net Assets. The remaining proceeds were paid to the university on the September 21 closing date. The agreement includes the sale of certain parking-related equipment assets, which will be recognized as revenue in Fiscal Year 2013. The remainder of the proceeds will be recorded as a deferred inflow and amortized to revenue on a straight-line basis over the life of the agreement.

Related to this transaction, the university entered into an interest-rate swap agreement on July 2, 2012, for a notional amount of $90,000 to hedge interest-rate risk prior to the closing of the parking lease and concession agreement. It terminated the swap on September 19, 2012, and received a $3,247 payment from the counterparty. In addition, the university is in the process of defeasing approximately $83,400 of parking-related bonds and expects to complete this transaction in November 2012.

Supplementary Information on the

Long-Term Investment Pool

for the Year Ended June 30, 2012

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 2012, 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 $245 million, to $2.37 billion at June 30, 2012. Changes in market value for 2012 are summarized below:

INVESTMENT RETURNS AND EXPENSES

The investment return for the Long-Term Investment Pool was -0.1% for fiscal year 2012. The annualized investment returns for the three-year and five-year periods were 10.5% and -1.1%, 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 $41 million of investment management expenses, which reduced the pool by 1.9% in fiscal year 2012, the $14 million of University Development expenses and $1 million of other investment related expenses further reduced the pool by 0.7%.

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments			
	University	Foundation	Long-Term Operating	Total
Market value at June 30, 2011	**$ 921,219**	**$ 484,427**	**$ 715,068**	**$ 2,120,714**
Net principal additions (withdrawals)	9,590	43,893	311,418	364,901
Change in market value	(5,210)	(2,259)	1,729	(5,740)
Income earned	19,091	10,411	16,891	46,393
Distributions	(42,939)	(23,081)	(38,216)	(104,236)
Expenses	(23,044)	(12,567)	(20,388)	(55,999)
Market value at June 30, 2012	**$ 878,707**	**$ 500,824**	**$ 986,502**	**$ 2,366,033**

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, 2012. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($41 million), University Development related expenses ($14 million) and other investment related expenses ($1 million).

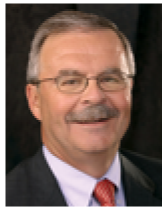
ADDITIONAL INFORMATION

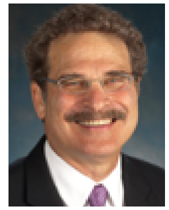
Additional details on university endowments, including balances for individual funds, are available on the Office of Financial Services website at financialservices.ohio-state.edu/endowment/.

Board of Trustees

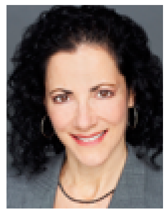
2012-2013



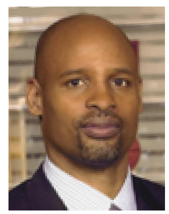




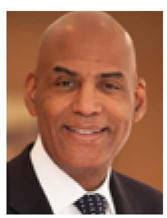
The expiration date of each trustee's term is given in parentheses.

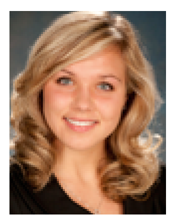
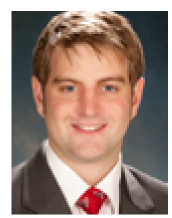









Acknowledgements

The 2012 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller.

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Awareness
Engagement
Giving

Ohio State kicks off $2.5 billion fundraising campaign

University Advancement

Advancement is a university-wide initiative integrating alumni relations, communications and marketing, and fundraising. Its mission is to increase the eminence of The Ohio State University by building awareness, engagement, and giving in support of the academy among critical stakeholder groups, including students, faculty, staff, alumni, friends, Ohioans, corporate partners, and national leaders.

Why Now?

Ohio State's academic goal for the next 10 years is to be consistently recognized among the top 10 public comprehensive research universities in the world, and Advancement exists to support the strategic commitments necessary to move Ohio State from excellence to eminence. In an environment of ever-shrinking resources, the university must be smart and strategic in how we involve and inform our constituents.

Cures for the world's most devastating diseases. Safe and plentiful food. Sustainable energy.

Ohio State's goals are monumental.

"My wish is for this great university to reach beyond our already high attainment and become the country's most vibrant, most engaged, most forward-thinking public institution."

– President E. Gordon Gee

Read more here.