2013 Annual Financial Report

The Ohio State University

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This page: Entrance to Billy Ireland Cartoon Library and Museum in the renovated Sullivant Hall
On the cover (clockwise, from left):
Chiller water plant, proposed North Residential District town square, Thompson library entrance, Orton Hall tower

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Message from the Interim President

Joseph A. Alutto

Dear friends and colleagues:

This has been a year of time and great change at The Ohio State University. It also has been one of continual growth and renewal. Thanks to the talent, dedication and tremendous teamwork of our university community, Ohio State each day reaches closer to our bold vision to become a preeminent public university. As an institution, Ohio State will have achieved true eminence when those in the world who seek solutions to the grand challenges of our day first look to Ohio State.

To make that happen, Ohio State must retain its focus on three core principles. We must continue to attract the very best students to Ohio State and provide them with an extraordinary educational experience. We must continue to recruit and retain world-class faculty for a world-class institution. Finally, we must pair these elements to create a campus environment in which faculty, students and staff work together to learn, solve problems and grow as an intellectual community.

Most important, we must achieve eminence while at the same time minimizing the financial burden on students and their families. To do so requires new approaches to securing the necessary non-tuition revenue despite a stagnating economy and flat or falling public financial support. That requires us constantly to think in new ways about the challenges we face as an institution, to explore opportunities for streamlining processes and to best utilize our assets to their full potential on behalf of students, faculty, staff and alumni.

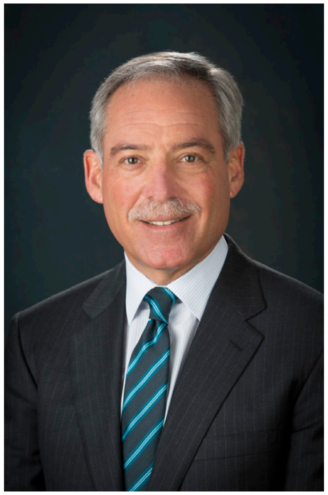
Last year, the university launched a $2.5 billion campaign, the largest in Ohio State's history. After a successful series of campaign events around the country, we are making significant progress toward our goal. The campaign—and its constituent programs, such as the Ohio Scholarship Challenge—will enable us to continue providing the resources needed to attract and retain the brightest students, as well as the most talented faculty and staff.

I am truly proud to serve The Ohio State University and its community at a time of great promise. As we march toward eminence, we must keep our attention fixed on our land-grant mission and its noble purpose to promote Education for Citizenship in these ever-challenging times.

Sincerely,

Joseph A. Alutto
Interim President

Letter from the Chair of the Board of Trustees



Robert H. Schottenstein

For 143 years, The Ohio State University has served the people of Ohio and, in the process, improved innumerable lives throughout the world. Forged in the noble "land-grant" tradition, this great university embodies the vision first enacted by the Morrill Act in 1862, which was designed to make a quality college education accessible to the public.

Today, the power and promise of Morrill's legacy roots deeply into the core of our academic mission at The Ohio State University. As a modern public land-grant institution, Ohio State is nothing short of an economic engine for our community, and a driver of critical advances in education, research, innovation and service across the entire globe. The university's campuses form the epicenters of a vast network of students, scholars, researchers, partners, staff members and alumni stretching from Columbus, Ohio, to London, Tanzania, Mumbai, Shanghai and beyond.

While the caliber of our academic programs at Ohio State continues to improve, the university still faces constant pressure from economic headwinds and uncertain priorities in Washington. As a result, we have discovered that the best insurance amid turbulent times is building a solid financial foundation through innovative and sometimes entrepreneurial approaches to generating new revenue and lowering the cost of a college degree. At Ohio State, these new approaches have begun to transform the way we offer a quality education at an affordable price.

Over the past year, Ohio State has garnered significant accomplishments while maintaining a deep commitment to the stewardship of financial resources and academic programs. We recognize, further, our responsibility to improve and drive forward progress at the university. Each day, I have the pleasure of working alongside my colleagues on the Board of Trustees, as well as with Interim President Alutto and his leadership team to strengthen the core of this beloved institution. The Ohio State University holds a place in the hearts of Ohioans, and, with the help of our exceptional community, we will continue our climb to the highest summits of American higher education in the 21st century.

Sincerely,

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

Transformation in Action

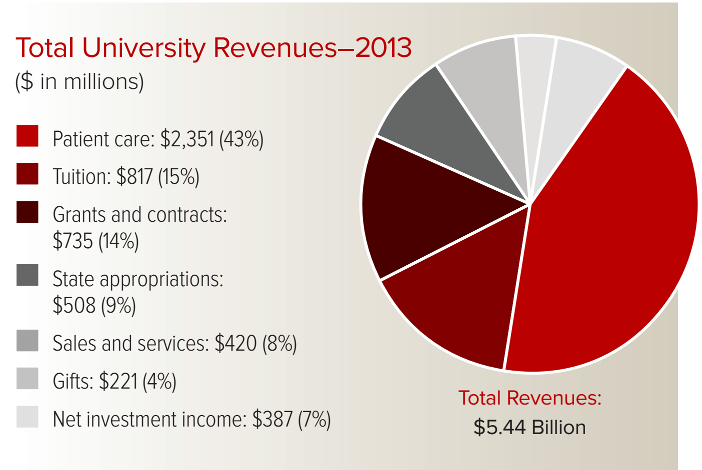
Report from the Chief Financial Officer

Geoff Chatas

The Ohio State University in fiscal year 2013 continued its innovative financial game plan. A stubborn economy has caused students and their families to look apprehensively at the costs of a college degree. While the benefits of a college education are immeasurable, institutions of higher education can and must do everything possible to improve affordability for their students.

At Ohio State, we are working to do exactly that by implementing resource stewardship strategies focused on three areas: new revenue generation, managing expenses and monetizing assets that are non-essential to the academic core. Through this contemporary model for financing the university, we are working to bend the cost-curve downward, bolster our long-term investment pool, pay for new faculty members and offer new opportunities for students, faculty, staff and alumni. In the letter and report that follows, I am truly pleased to share highlights from this exciting year of transformation in action.

Endowment Growth
Ohio State's long-term investment pool grew by $783 million in 2013. Our efforts were recognized by the National Association of College and University Business Officers, which ranked the growth of Ohio State's investment pool number one among the top 50 largest university endowments in the country.



The first key ingredient to our success in this area was the 50-year lease and concession agreement with QIC Global Infrastructure to operate, maintain and retain parking revenues. The proceeds of this agreement, $483 million, were deposited in 2013 and instantly boosted the university's long-term investment pool by 20 percent. The proceeds already are making a huge impact on the way the university is doing business. In fiscal year 2013, the parking endowments earned more than $43 million, with $17.4 million of the earnings distributed to directly fund student scholarships, increase staff development grants, advance our plan to hire tenured and tenure-track faculty and to support the Campus Area Bus Service.

Discovery Themes
As part of its strategic plan, the university has identified three key areas of emphasis for future investments: **health and wellness, food production and security,** and **energy and the environment.** The FY14 budget plan marks the beginning of our investment in the university's Discovery Themes. We are currently on a journey to hire 500 new tenured or tenure-track faculty by 2023, initially beginning with the area of data analytics.

Over the 50 years of the lease, it has been estimated that the $483 million will provide $3.1 billion in investment earnings for those initiatives, as well as increase the long-term investment pool by $4.9 billion.

The second major factor that contributed to endowment growth was investment income. The long-term investment pool generated $305 million of net investment income in 2013, a return of 11.63 percent. The investment team, led by Jonathan Hook, vice president and chief investment officer, continues to make critical contributions to the university's long-term financial health.

Second-year Transformational Experience Program

By living on campus, students gain academically and build a strong foundation for future career and professional success. Research shows that campus communities help increase retention rates, boost graduation rates and create positive learning environments.

In 2013, Ohio State launched the Second-year Transformational Experience Program (STEP) to redefine the student experience and help customize our students' educational programming to individual interests and needs.

To facilitate this new groundbreaking program, the treasurer's office, led by Mike Papadakis, vice president, financial services, and university treasurer, structured a financial deal for the university to issue $338 million of special purpose general receipts bonds to pay for the North Residential District Transformation project. These bonds are secured by a pledge of housing, dining and recreational facilities revenues.

Affinity and Licensing Agreements

In 2012, the university signed a 15-year, $125 million affinity partnership with Huntington National Bank to support academic scholarships, educational programming and internship opportunities for students. This year, the agreement generated $1 million due to the success of an incremental business incentive program. We continue to take pride in our relationship with Huntington, a great national company with local roots.

Ohio State also recently signed a licensing deal with J. America to consolidate the number of licensees permitted to produce Ohio State apparel. Previously, the university did business with 125 licensees. Under the new agreements, the university will deal exclusively with two companies—J. America and Nike—with the objective of both

The Power of Efficiency
In 2013, Ohio State negotiated a deal with American Electric Power to reduce energy costs for the university's Columbus campus, saving $8 million over an 18 month period.

Going Green
Ohio State forged a partnership with Blue Creek Wind Farm in Van Wert, Ohio, to purchase 50 megawatts of energy per year. As a result of the deal, 25 percent of the Columbus campus will now be powered by wind energy, a demonstration of the university's commitment to sustainability.

decreasing overhead costs and increasing revenues by some $4.5 million per year to support key programs in Academic Affairs, Student Life, Athletics and the Alumni Association.

The university is positioned to make significant strategic investments over the next several years to advance our vision, mission and core goals. And we are continually on the lookout for new ideas and approaches to revenue generation, streamlining efficiencies and asset monetization.

Efficiently Managing Expenses
Ohio State is continuing its efforts to transform our operating model to improve efficiency. Every little bit helps—and adds up over time. This year, Strategic Purchasing, in collaboration with leadership across the university, generated incremental cost savings of $30 million, up $8.1 million over last year, a 37 percent increase.

INCREMENTAL COST SAVINGS IN 2013
$30 MILLION
UP FROM **$21.9** IN 2012

Looking Ahead
Each day, the Office of Business and Finance seeks to transform this university so that it works optimally for its entire community. We are dedicated to effective resource stewardship and have been recognized nationally for our groundbreaking work in these areas. Our mission now is to continue the innovative game plan, secure the university's long-term financial health and help ensure that an Ohio State education is affordable for students and their families.

In the pages that follow, I encourage you to read our financial statements so that you can get a closer look and deeper understanding of how our financial strategies are making an impact in the life of this great university.

As always, Go Bucks!

Sincerely,

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

Independent Auditor's Report

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the primary institution and the aggregate discretely presented component units of The Ohio State University (the "University"), a component unit of the State of Ohio, which comprise the consolidated statements of net position as of June 30, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary institution and the aggregate discretely presented component units of the University as of June 30, 2013 and 2012, and the respective changes in net position and cash flows and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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pwc

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted GASB Statement 61, The Financial Reporting Entity: Omnibus, in 2013, applied retroactively, which modifies the determination of discretely presented component units. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 10 through 21 be presented 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.

Other Matter

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Supplementary Information on the Long-Term Investment Pool on page 59 is presented for purposes of additional analysis and are 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 do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Columbus, Ohio
October 22, 2013

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, 2013, with comparative information for the years ended June 30, 2012 and June 30, 2011. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About The Ohio State University

The Ohio State University is the State of Ohio's flagship research institution and one of the largest universities in the United States of America, with over 63,000 students, 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 168 undergraduate majors, 115 master's degree programs, 93 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 Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of The Ohio State University Hospital, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, Dodd Rehabilitation Hospital, four comprehensive outpatient care centers, an ambulatory surgery center, a comprehensive breast treatment center, and twenty-nine clinics. The Health System provided services to more than 56,000 adult inpatients and 1,485,000 outpatients during Fiscal Year 2013.

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, deferred inflows/outflows and net position (equity) of the university, the Wexner Medical Center, the Ohio Agricultural Research and Development Center and OH-TECH (formerly known as OARnet and the Ohio Supercomputer Center). These entities constitute the "primary government" for financial reporting purposes. In addition, the financial statements include consolidated financial results for a number of "component units", which are legally separate entities that meet the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

In previous years, the university presented all of its component units in a single-column "blended presentation". This has changed, with the adoption of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB 61 significantly narrows the criteria for a blended presentation. In particular, the GASB has indicated that the "exclusive benefit" criterion for blending is not met when a component unit provides services to parties external to the primary government. As a result, the university is now presenting the following component units in a discrete presentation:

> This year's report reflects the implementation of GASB 61, resulting in revised presentation of financial information.

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

The remaining component units of the university, which are listed below, meet the revised exclusive benefit criteria under GASB 61 and will continue to be shown in a blended presentation:

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

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

Condensed financial information for both blended and discretely presented component units is provided in the Notes to the Financial Statements.

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 Position, a Statement of Revenues, Expenses and Other Changes in Net Position, a Statement of Cash Flows and Notes to the Financial Statements. Separate columns are presented for the primary institution (which includes the primary government and the blended component units), discretely presented component units and the total university. Unless otherwise specified, the amounts presented in this MD&A are for the primary institution.

The **Statement of Net Position** is the university's balance sheet. It reflects the total assets, liabilities and net position (equity) of the university as of June 30, 2013, with comparative information as of June 30, 2012. 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 position is 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 Position** is the university's income statement. It details how net position has increased (or decreased) during the year ended June 30, 2013, with comparative information for Fiscal Year 2012. 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, 2013, with comparative information for Fiscal Year 2012. It breaks out the sources and uses of university cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the university's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales of investments are reflected as investing activities.

The **Notes to the Financial Statements**, which follow the financial statements, provide additional details on the numbers in the financial statements. Behind the notes is a section that provides supplementary information on the university's Long-Term Investment Pool.

Financial Highlights and Key Trends

Total net position for the primary institution increased $513 million, to $5.94 billion at June 30, 2013. Net investment income accounted for $387 million of the increase, reflecting strong 2013 returns for the university's Long Term Investment Pool. In September 2012, the university entered into a 50-year lease and concession agreement with QIC Global Infrastructure to operate, maintain and retain parking revenues from the university's parking lots and garages. The proceeds from the agreement, which totaled $483 million, were used to establish quasi-endowment funds. In January 2013, the university issued $338 million of Special Purpose General Receipts Bonds, which are secured by a pledge of housing, dining and recreational facilities revenues. Total unrestricted and restricted-expendable net position increased $35 million, to $2.21 billion. With the exception of consolidated Health System revenues, which increased $97 million, total operating revenues were relatively flat compared with 2012.

Demand for an Ohio State education remains strong, and student outcomes continue to improve. 63,058 students were enrolled in Autumn 2012, down slightly from Autumn 2011. 92% of the freshmen enrolled in Autumn 2011 returned to OSU in Autumn 2012. Over the past five years, four-year graduation rates have increased from 46% to 61%, and six-year graduation rates have increased from 71% to 82%.

The following sections provide additional details on the university's 2013 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Summary Statement of Net Position (in thousands)

	2013	2012	2011
Cash and temporary investments	$ 1,073,925	$ 1,283,141	$ 1,460,719
Receivables, inventories, prepaids and other current assets	528,165	560,913	489,907
Total current assets	1,602,090	1,844,054	1,950,626
Restricted cash	926,444	714,226	488,361
Noncurrent notes and pledges receivable	127,831	92,427	79,797
Long-term investment pool	3,149,169	2,366,033	2,120,714
Other long-term investments	69,358	71,663	68,283
Capital assets, net of accumulated depreciation	4,136,392	3,765,325	3,391,264
Total noncurrent assets	8,409,194	7,009,674	6,148,419
Total assets	$ 10,011,284	$ 8,853,728	$ 8,099,045
Accounts payable and accrued expenses	$ 385,006	$ 413,995	$ 358,845
Deposits and advance payments for goods and services	179,436	230,300	227,693
Current portion of bonds, notes and lease obligations	503,750	530,047	518,982
Other current liabilities	21,705	23,102	17,159
Total current liabilities	1,089,897	1,197,444	1,122,679
Noncurrent portion of bonds, notes and lease obligations	2,177,884	1,897,724	1,451,502
Other noncurrent liabilities	328,987	331,056	318,159
Total noncurrent liabilities	2,506,871	2,228,780	1,769,661
Total liabilities	3,596,768	3,426,224	2,892,340
Deferred inflows - Parking service concession arrangement	474,332	-	-
Invested in capital assets, net of related debt	$ 2,394,141	$ 2,056,993	$ 1,987,366
Restricted-nonexpendable net assets	1,340,681	1,200,473	1,217,323
Restricted-expendable net assets	737,848	603,108	592,082
Unrestricted net assets	1,467,514	1,566,930	1,409,934
Total net position	$ 5,940,184	$ 5,427,504	$ 5,206,705

Statement of Net Position

Cash and temporary investment balances decreased $209 million, to $1.07 billion, primarily due to a reduction in net operating cashflows (excluding parking proceeds) and defeasance of parking-related debt. **Restricted cash** balances increased $212 million, to $926 million. These balances consist primarily of unspent proceeds from the Special Purpose General Receipts Bonds, which will be used to fund the North Residential District expansion project, and the Century Bonds, which are being used to fund the Medical Center expansion and other capital projects. The Statement of Cash Flows, which is discussed in more detail below, provides additional information 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.

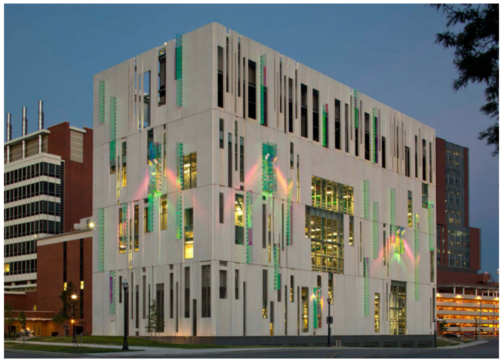
Accounts receivable decreased $31 million, to $386 million at June 30, 2013, primarily due to decreases in patient care receivables for the Health System. The 2012 implementation of a new patient care information and billing system, EPIC, created one-time billing lags, which inflated prior-year receivable balances.

The market value of the university's **long-term investment pool** increased $783 million, to $3.15 billion at June 30, 2013, primarily due to the investment of the $483 million proceeds from the parking agreement and $372 million of net investment income. The long-term investment pool operates similar to a mutual fund, in that each named fund is assigned a number of shares in the pool. It includes the gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and operating funds which have been internally designated to function as endowments. The pool is invested in a diversified portfolio of equities, fixed income, real estate, hedge funds, private equity, venture capital and natural resources that is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support the university's mission.

Other long-term investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation. These investments decreased $2 million, to $69 million, at June 30, 2013.

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $371 million, to $4.14 billion at June 30, 2013. 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 2013 include the $172 million renovation of five existing student housing facilities and construction of two new facilities. Smith, Steeb and Siebert Halls opened Fall Semester 2013 following major renovations and construction of new facilities between Smith and Steeb Halls. The Park and Stradley Halls portion of the project opened the previous academic year. Also completed was Phase II of the William H. Hall Complex, a suite-style housing facility with 537 student beds. Major infrastructure projects completed in 2013 include a $42 million electrical substation to meet growing electricity demand, a $74 million chilled water plant to support the Medical Center expansion, and the 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.



Chilled water plant

Smith and Steeb Halls

Major projects completed in 2013 include the $172 million renovation of five existing student housing facilities and construction of two new facilities.

William H. Hall Student Residential Complex

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

- ***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 completion late in 2014. The university is financing the project with a combination of bonds ($925 million), private gifts ($75 million) and a $100 million federal grant.
- ***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 in January 2015.

- ***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.

- ***Infrastructure Improvements*** – Work continues on several major infrastructure projects, including construction of a $41 million east regional chiller plant to serve buildings east of the Oval. The east regional chiller project is expected to be completed in 2014. A $21 million steam and condensate upgrade project will upgrade deteriorated lines and increase capacity and distribution in the mid-west campus area from McCracken Power Plant to near the Drake Union. Also underway at the McCracken Power Plant is a $20 million project to replace the existing aging water treatment system, and a $13 million project to replace high voltage electrical cable and related equipment.

- ***North Residential District Transformation (NRDT)*** – The $370 million NRDT project will construct new housing and support facilities for sophomore students in the north campus area. Enabling project work began Summer 2013, and the project is slated for completion Fall Semester 2016.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $751 million at June 30, 2013.

Accounts payable and accrued expenses decreased $29 million, to $385 million at June 30, 2013, primarily due to decreases in vendor payables for operating expenses (down $37 million). **Deposits and advance payments for goods and services** decreased $51 million, to $179 million, reflecting the reclassification of a $22 million deposit for the parking agreement to deferred inflows in 2013, a $14 million decrease in advance payments for departmental and auxiliary sales and services and an $11 million decrease in advance payments for grants and contracts.

University debt, in the form of **bonds, notes and capital lease obligations**, increased $254 million, to $2.68 billion at June 30, 2013. In January 2013, the university issued $338 million of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of the university's student housing, dining and recreational facilities. Offsetting the new bond issue were a $75 million defeasance of debt related to parking facilities and $52 million in principal payments.

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 position classification of these bonds. Under GASB Interpretation 1, outstanding principal balances on variable rate demand bonds may be classified as noncurrent liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. These obligations totaled $446 million and $470 million at June 30, 2013 and 2012, respectively.

Other noncurrent liabilities increased $32 million, primarily due to central accruals for university insurance programs.

In 2013, the university recognized a $474 million **deferred inflow** for the parking agreement. Deferred outflows and deferred inflows are new financial statement elements, which were introduced by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The parking deferred inflow will be amortized to operating revenue on a straight-line basis over the 50-year life of the agreement.

Prior-Year Highlights: In 2012, the university issued $500 million of federally taxable "Century Bonds", which mature in June 2111. Total plant debt increased $457 million, to $2.43 billion. Total unrestricted and restricted-expendable net position increased $168 million, to $2.17 billion. **In 2011**, total unrestricted and restricted-expendable net position increased $301 million, to $2.02 billion. Three September 2010 bond issues increased total plant debt by $630 million, to $1.97 billion.

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

	2013	2012	2011
Operating Revenues:			
Tuition and fees, net	$ 816,761	$ 793,742	$ 732,688
Grants and contracts	597,201	593,623	558,966
Auxiliary enterprises sales and services, net	222,014	233,020	232,482
OSU Health System sales and services, net	2,018,724	1,921,897	1,706,037
Departmental sales and other operating revenues	190,049	176,271	189,968
Total operating revenues	3,844,749	3,718,553	3,420,141
Operating Expenses:			
Educational and general	2,158,149	2,088,529	2,047,191
Auxiliary enterprises	242,376	239,570	244,787
OSU Health System	1,796,581	1,697,628	1,484,405
Depreciation	257,606	236,180	233,970
Total operating expenses	4,454,712	4,261,907	4,010,353
Net operating income (loss)	(609,963)	(543,354)	(590,212)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	432,652	428,306	439,576
Federal fiscal stabilization funds	-	-	60,063
Gifts - current use	122,208	139,599	103,754
Net investment income (loss)	386,516	59,184	363,924
Grants, interest expense and other non-operating	(8,483)	24,644	21,466
Income (loss) before other revenues, expenses, gains or losses	322,930	108,379	398,571
State capital appropriations	75,127	42,188	62,732
Private capital gifts	41,176	19,072	16,398
Additions to permanent endowments	57,480	41,299	30,835
Transfers to primary institution	15,967	9,861	20,746
Increase (decrease) in net position	512,680	220,799	529,282
Net position - beginning of year	5,427,504	5,206,705	4,677,423
Net position - end of year	$ 5,940,184	$ 5,427,504	$ 5,206,705

Statement of Revenues, Expenses and Other Changes in Net Position

Net **tuition and fees** increased $23 million, or 3%, to $817 million in 2013. The university completed its conversion from quarters to semesters in 2013. Total enrollments declined by 2%, as students accelerated graduation in order to avoid the conversion. The effect of these enrollment declines was offset by a 3.5% tuition increase for undergraduates and a 3% increase in enrollments of non-resident students, who are assessed an out-of-state surcharge.

Operating **grant and contract revenues** increased $4 million, to $597 million in 2013, primarily due to increases in private grant revenues (up $19 million). Federal grant and contract revenues declined $18 million, to $341 million, reflecting the winding down of grants funded under the American Recovery and Reinvestment Act of 2009 and the effects of federal sequestration. Revenues for sponsored research programs administered by the Office of Sponsored Programs (formerly known as the OSU Research Foundation) increased $5 million, to $494 million.

Educational and general expenses increased 3%, to $2.16 billion in 2013. Additional details are provided in the chart on page 17.

Total **instructional and departmental research** expenses increased $31 million in 2013, primarily due to faculty salary increases and increased benefit costs. The university's budget process directs the bulk of annual increases in tuition, state share of instruction and facilities and administrative cost recoveries to the colleges, for investment in academic programs. **Separately budgeted research** decreased $15 million, reflecting decreases in operating expenditures on sponsored programs. **Institutional support** increased $54 million, primarily due to central accruals for university insurance programs. **Operation and maintenance of plant** expense decreased $9 million, primarily due to a combination of lower utility and housekeeping costs and increased recharges of costs to university departments.

Auxiliary revenues decreased $11 million, to $222 million in 2013. Room and board fees increased $7 million, due to the re-opening of Park-Stradley Hall, increases in room and board rates and the addition of new dining plan options. Transportation and Parking revenues were down $20 million, due to the transfer of the parking operations to CampusParc (QIC Global Infrastructure's operating subsidiary) under the parking lease and concession agreement. **Auxiliary expenses** increased $3 million, to $242 million, with decreases in Transportation and Parking expenses partially offsetting increases in campus housing and dining expenses and Athletics expenses.

The **Health System** operates nearly 1,200 inpatient beds and serves as a major tertiary and quaternary referral

Educational and General Expenses (in thousands)

	2013	2012	2011
Instruction and departmental research	$ 906,339	$ 875,800	$ 837,893
Separately budgeted research	413,985	429,276	419,394
Public service	96,578	98,686	101,326
Academic support	170,142	162,783	147,845
Student services	94,237	90,493	88,604
Institutional support	271,737	217,648	236,624
Operation and maintenance of plant	93,767	103,095	112,874
Scholarships and fellowships	111,364	110,748	102,631
Total	$ 2,158,149	$ 2,088,529	$ 2,047,191

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 been recognized by *U.S. News & World Report* for 21 consecutive years as one of "America's Best Hospitals" and has 10 nationally ranked specialties. 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 late calendar year 2014, and more than 310,000 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 (IHIS). All members of the Medical Center team now use the same system to access and enter information into the inpatient and outpatient medical and financial records. In May 2012, The Ohio State University 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. Over 20 partner hospitals participate in the Health System's Telestroke Medicine hub which leverages innovative technologies to provide faster and more efficient diagnosis and treatment of stroke patients in largely rural areas of Ohio. The Health System is also extending the Integrated Health Information System into the community hospital and community practice setting and continues to develop additional relationships with community and state healthcare providers to leverage its electronic healthcare systems.

In 2013, the Health System remained financially sound due to solid activity levels and strong expense management. Inpatient admissions showed a slight increase compared with prior year. Consistent with industry trends, the patient environment continues to move to an outpatient setting and to an increased use of observation beds. The Health System continued to experience gains in more complex surgical, neurological, neonatal intensive care, cancer, and cardiovascular admissions, which contributed to increases in revenues, average length of stay, and average daily census.

Total surgeries increased 2.5% compared to prior year. Outpatient visits increased 6.2% over the previous year, as the Health System continued its ambulatory strategy and experienced growth at the Eye and Ear Institute, CarePoint and Fast Care facilities, Stefanie Spielman Comprehensive Breast Center, and other primary care and specialty care clinics.

Consolidated Health System operating revenues grew $97 million, to $2.02 billion in 2013. The increase was driven by increased activity levels discussed above, with the remaining increase resulting from higher case intensity, sustained payer mix, and increased rates from third party payers.

Consolidated Health System operating expenses (excluding depreciation, interest and transfers) increased $99 million, to $1.80 billion, in 2013, reflecting changes in activities. Adjusted for activities, total operating expense decreased 1.8% compared to prior year.

University investments yielded $387 million of net investment income in 2013.

Measured on a stand-alone basis, the Health System's operating income remained strong, with the operating margin increasing from 9.2% in 2012 to 10.6% in 2013. Income before other changes in net position was $207.3 million versus $197.9 million in 2012. The Health System reinvested $115.8 million back into research, education, and programs at the Medical Center. In December of 2010, the Health System was awarded 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 $23.1 million of the total grant was recognized under Contribution for Property Acquisitions as a change in net position in 2013 and $30.4 million in 2012. The remaining amounts will be funded by HRSA on a cost sharing basis, once the allowable costs have been incurred. Additionally, $11.5 million in 2013 and $4.5 million in 2012 of other restricted expendable funds and pledges (in support of the tower and other initiatives) have been recorded. In total, after accounting for these changes, the Health System's Net Position increased $166.9 million in 2013 and $137.6 million in 2012.

As with all healthcare providers, the Health System will be challenged by the impact of Healthcare Reform. The impact of insurance exchanges, managed care rates, and sequestration continues to cause uncertainty in the environment for hospitals nationwide. Regardless, the Medical Center continues to position itself to thrive in the changing market, as it has successfully done in the past. The clinical component of the medical staff activities has been integrated into the OSU Faculty Group Practice providing the Health System and the medical staff a unified structure to manage changes in reimbursement, practice patterns, and alignment in strategic initiatives. The Health System is partnering with the University Health Plan to design innovative product offerings for both the exchanges and employers and continue working with other providers locally and statewide to form strategic alliances.

Despite the challenges and the changing healthcare environment, the Health System expects to improve its financial position and operating results 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 2013. Total consolidated operating revenues increased $29 million, to $332 million, as a result of increased patient volume and support from the Health System. Total consolidated OSUP expenses (excluding depreciation and interest) increased $31 million to $316 million in 2013. These figures are included in the Discretely Presented Component Units columns of the university's financial statements.

OSUP is the single member of 17 limited liability companies (LLCs). As of June 30, 2013 only 15 of the LLCs were active. Two of the LLCs (Anesthesia and Orthopedics) have been created but had no 2013 activity within OSUP.

Total state operating support increased $4 million, to $433 million, in 2013. Both **state share of instruction** and **line-item appropriations** were stable compared with 2012. The State of Ohio is moving to a new funding formula that focuses on degree completions. FY2014 operating support is expected to be up slightly compared with 2013.

Non-endowment gifts to the university (including gifts for current use and gifts to capital projects) increased $5 million, to $163 million in 2013. New gift **additions to permanent endowments** increased $16 million, to $57 million. During 2013, over 228,000 alumni and friends made gifts to the university, up from 211,000 in 2012.

University investments yielded $387 million of **net investment income** in 2013. The net investment income figure includes $78 million of interest and dividend income and $309 million net increase in the fair value of university investments.

The Long Term Investment Pool's net investment return for the fiscal year ended June 30, 2013, was 11.63% versus the Policy (internal benchmark) return of 8.96%. In 2013, investors faced rising interest rates and mass investor repositioning in anticipation of Federal Reserve policy changes. Public equities, hedge funds, and private equity were all strong performers during the year. Natural resources, infrastructure and fixed income lagged due to softness in global energy prices for most of the year and rising rates in the bond markets.

The university's Investment Office continues to evaluate diversifying strategies to position the portfolio for anticipated lower fixed income returns and the continuing uneven recovery of global markets and will continue to strive for the best possible risk-adjusted investment returns to grow the purchasing power of the Long Term Investment Pool.

Prior-Year Highlights: In 2012, Total net position (equity) increased $221 million, to $5.43 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 2011**, total net position increased $529 million, primarily due to $364 million of net investment income and strong operating results for the OSU Health System.

University Cash Flows Summary (in thousands)

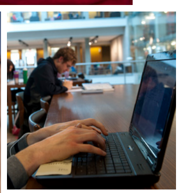
	2013	2012	2011
Net cash flows from operating activities	$ 82,605	$ (281,830)	$ (289,316)
Net cash flows from noncapital financing activities	664,464	631,466	717,035
Capital appropriations and gifts for capital projects	82,963	68,038	79,099
Proceeds from issuance of bonds and notes payable	499,398	521,155	902,117
Payments for purchase and construction of capital assets	(608,138)	(568,222)	(441,556)
Principal and interest payments on capital debt, net of federal Build America Bond interest subsidies	(324,944)	(132,789)	(335,003)
Net cash flows for investing activities	(673,292)	9,476	(237,894)
Net increase (decrease) in cash	$ (276,944)	$ 247,294	$ 394,482

Statement of Cash Flows

University cash and cash equivalents decreased $277 million in 2013. Net cash flows from operating activities increased $364 million, reflecting the September 2012 receipt of $453 million in net proceeds from the parking lease and concession agreement. Excluding parking proceeds, operating cashflows decreased $67 million, with increases in payments for supplies and services (up $224 million) and employee benefits (up $66 million) more than offsetting increased receipts for sales and services (up $218 million). Net cash flows from noncapital financing activities increased $33 million, primarily due to timing differences in drawdowns of federal direct-lending funds. Net cash used for capital financing activities increased $239 million, to $351 million, reflecting increases in total principal payments and capital expenditures for the Medical Center expansion, south campus dorm expansion and other major projects. Total cash used for investing activities was $673 million, reflecting the investment of the total proceeds of the parking agreement ($483 million) in the Long Term Investment Pool and $280 million of net purchases of temporary investments.

Economic Factors That Will Affect the Future

Fiscal Year 2013 saw the retirement of the university's president, E. Gordon Gee. Since his return to Ohio State in 2007, President Gee has led the university on a multi-phase strategic planning and implementation process to move the university from excellence to eminence in public higher education. Under the leadership of Interim President Joseph A. Alutto, the university is poised to continue and accelerate this progress. As President Alutto recently noted, "At Ohio State, we've been able to move aggressively because of the strategic planning we've done and the resource base we have – alumni who have stepped forward, a governor who has been supportive during tough times, monetizing our parking, selling the century bonds. All of that allows us to stay focused on our academic programs."



Some of the broad goals that Ohio State is focusing on in 2014 and beyond include:

- Defining and enhancing the undergraduate, graduate and professional student experience, including the new Second-Year Transformational Experience Program (STEP)
- Developing the Discovery Themes – Health and Wellness, Energy and the Environment, and Food Production and Security
- Developing eLearning at Ohio State
- Discussing faculty evaluation and rewards in our interdisciplinary climate
- Maintaining affordability and access for our students while promoting excellence
- Enhancing the arts on campus and promoting connections with the community outside Ohio State

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 2014. However, the university does face certain financial challenges, including limited growth in state operating support and tuition revenues, the continuing effects of federal sequestration and uncertainties related to the impact of healthcare reform. State share of institution (SSI) is expected to increase 2%, and restricted line-item appropriations are expected to be flat in 2014. A new state subsidy model that focuses on degree completions is expected to have a negative impact in 2015, as other institutions expand enrollments in on-line programs. Tuition revenues are expected to increase 2% in 2014, primarily driven by a shift in the student mix to more non-resident and professional students. Undergraduate instructional and mandatory fees will not increase in fiscal 2014. Federal sequestration will continue to negatively impact sponsored research revenues, which are expected to decline 6% in 2014. The university's largest federal sponsor, the National Institutes for Health, is cutting new awards 10-20% and reducing already committed funding by 4-6%. OSU's second largest federal sponsor, the National Science Foundation, cut awards to the university by 25% in 2013. Sequestration, the development of insurance exchanges, changes to managed care rates and other aspects of healthcare reform will continue to cause uncertainty in the environment for the Wexner Medical Center and hospitals nationwide.

New accounting rules are also expected to have a potentially significant impact on the university's reported financial position and results of operations. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is effective Fiscal Year 2015, requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the net assets set aside to pay pension benefits. For cost-sharing employers, the net pension liability is equal to the employer's proportionate share of the collective net pension liability for the plan. The university participates in two cost-sharing defined benefit pension plans, the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS-Ohio). Based on information provided in the most recently available financial reports for the pension plans, university management anticipates that Statement No. 68 will result in the recognition of significant liabilities in the university's financial statements.

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.

THE OHIO STATE UNIVERSITY

Consolidated Statements of NET POSITION

June 30, 2013 and June 30, 2012
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2013	2012	2013	2012	2013	2012
ASSETS AND DEFERRED OUTFLOWS:						
Current Assets:						
Cash and cash equivalents	$ 64,691	$ 553,853	$ 52,495	$ 43,952	$ 117,186	$ 597,805
Temporary investments	1,009,234	729,288	12,572	12,868	1,021,806	742,156
Accounts receivable, net	385,965	416,726	48,058	53,425	434,023	470,151
Notes receivable - current portion, net	23,528	24,553	470	72	23,998	24,625
Pledges receivable - current portion, net	27,491	21,190	-	-	27,491	21,190
Accrued interest receivable	21,204	27,455	-	-	21,204	27,455
Inventories and prepaid expenses	83,786	80,819	2,292	2,486	86,078	83,305
Amounts due from (to) primary institution	(13,809)	(9,830)	13,809	9,830	-	-
Total Current Assets	1,602,090	1,844,054	129,696	122,633	1,731,786	1,966,687
Noncurrent Assets:						
Restricted cash	926,444	714,226	-	-	926,444	714,226
Notes receivable, net	56,176	45,872	1,957	3,071	58,133	48,943
Pledges receivable, net	71,655	46,555	-	-	71,655	46,555
Long-term investment pool	3,149,169	2,366,033	-	-	3,149,169	2,366,033
Other long-term investments	69,358	71,663	1,529	5,106	70,887	76,769
Capital assets, net	4,136,392	3,765,325	80,162	82,881	4,216,554	3,848,206
Total Noncurrent Assets	8,409,194	7,009,674	83,648	91,058	8,492,842	7,100,732
Total Assets and Deferred Outflows	$ 10,011,284	$ 8,853,728	$ 213,344	$ 213,691	$ 10,224,628	$ 9,067,419
LIABILITIES, DEFERRED INFLOWS AND NET POSITION:						
Current Liabilities:						
Accounts payable and accrued expenses	$ 385,006	$ 413,995	$ 23,596	$ 27,238	$ 408,602	$ 441,233
Deposits and advance payments for goods and services	179,436	230,300	1,075	1,245	180,511	231,545
Current portion of bonds, notes and leases payable	57,315	60,347	1,226	23,104	58,541	83,451
Long-term bonds payable, subject to remarketing	446,435	469,700	-	-	446,435	469,700
Other current liabilities	63,042	75,295	-	-	63,042	75,295
Amounts due to (from) primary institution - current	(41,337)	(52,193)	41,337	52,193	-	-
Total Current Liabilities	1,089,897	1,197,444	67,234	103,780	1,157,131	1,301,224
Noncurrent Liabilities:						
Bonds, notes and leases payable	2,177,884	1,897,724	17,305	26,109	2,195,189	1,923,833
Compensated absences	137,737	126,387	43	57	137,780	126,444
Self-insurance accruals	106,851	115,208	-	-	106,851	115,208
Amounts due to third-party payers - Health System	11,366	13,716	-	-	11,366	13,716
Obligations under annuity and life income agreements	33,702	34,088	-	-	33,702	34,088
Refundable advances for Federal Perkins loans	31,445	28,706	-	-	31,445	28,706
Other noncurrent liabilities	59,849	27,852	1,457	4,378	61,306	32,230
Amounts due to (from) primary institution - noncurrent	(51,963)	(14,901)	51,963	14,901	-	-
Total Noncurrent Liabilities	2,506,871	2,228,780	70,768	45,445	2,577,639	2,274,225
Total Liabilities	3,596,768	3,426,224	138,002	149,225	3,734,770	3,575,449
Deferred Inflows:						
Parking service concession arrangement	474,332	-	-	-	474,332	-
Total Deferred Inflows	474,332	-	-	-	474,332	-
Net Position:						
Invested in capital assets, net of related debt	2,394,141	2,056,993	52,464	22,933	2,446,605	2,079,926
Restricted:						
Nonexpendable	1,340,681	1,200,473	-	-	1,340,681	1,200,473
Expendable	737,848	603,108	-	-	737,848	603,108
Unrestricted	1,467,514	1,566,930	22,878	41,533	1,490,392	1,608,463
Total Net Position	5,940,184	5,427,504	75,342	64,466	6,015,526	5,491,970
Total Liabilities, Deferred Inflows and Net Position	$ 10,011,284	$ 8,853,728	$ 213,344	$ 213,691	$ 10,224,628	$ 9,067,419

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

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

June 30, 2013 and June 30, 2012
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2013	2012	2013	2012	2013	2012
Operating Revenues:						
Student tuition and fees (net of scholarship allowances of $154,236 and $136,740, respectively)	$ 816,761	$ 793,742	$ -	$ -	$ 816,761	$ 793,742
Federal grants and contracts	341,038	358,968	8,819	10,322	349,857	369,290
State grants and contracts	50,062	48,061	-	-	50,062	48,061
Local grants and contracts	16,217	16,020	-	-	16,217	16,020
Private grants and contracts	189,884	170,575	52,412	45,955	242,296	216,530
Sales and services of educational departments	126,207	105,318	7,354	7,256	133,561	112,574
Sales and services of auxiliary enterprises (net of scholarship	222,014	233,020	-	-	222,014	233,020
allowances of $20,081 and $17,228, respectively)			-	-		
Sales and services of the OSU Health System, net	2,018,724	1,921,897	-	-	2,018,724	1,921,897
Sales and services of OSU Physicians, Inc., net	-	-	331,817	302,802	331,817	302,802
Other operating revenues	63,842	70,952	942	2,412	64,784	73,364
Total Operating Revenues	3,844,749	3,718,553	401,344	368,747	4,246,093	4,087,300
Operating Expenses:						
Educational and General:						
Instruction and departmental research	906,339	875,800	4,877	4,242	911,216	880,042
Separately budgeted research	413,985	429,276	20,686	23,968	434,671	453,244
Public service	96,578	98,686	8,535	11,028	105,113	109,714
Academic support	170,142	162,783	-	-	170,142	162,783
Student services	94,237	90,493	-	-	94,237	90,493
Institutional support	271,737	217,648	7,389	6,729	279,126	224,377
Operation and maintenance of plant	93,767	103,095	22,030	11,513	115,797	114,608
Scholarships and fellowships	111,364	110,748	-	-	111,364	110,748
Auxiliary enterprises	242,376	239,570	-	-	242,376	239,570
OSU Health System	1,796,581	1,697,628	-	-	1,796,581	1,697,628
OSU Physicians, Inc.	-	-	316,080	285,446	316,080	285,446
Depreciation	257,606	236,180	7,116	6,211	264,722	242,391
Total Operating Expenses	4,454,712	4,261,907	386,713	349,137	4,841,425	4,611,044
Operating Income (Loss)	(609,963)	(543,354)	14,631	19,610	(595,332)	(523,744)
Non-operating Revenues (Expenses):						
State share of instruction and line-item appropriations	432,652	428,306	-	-	432,652	428,306
Federal subsidies for Build America Bonds interest	10,799	11,252	-	-	10,799	11,252
Federal non-exchange grants	57,794	57,466	-	-	57,794	57,466
State non-exchange grants	8,463	5,185	-	-	8,463	5,185
Gifts	122,208	139,599	-	-	122,208	139,599
Net investment income	386,516	59,184	370	993	386,886	60,177
Interest expense on plant debt	(62,227)	(56,465)	(713)	(3,269)	(62,940)	(59,734)
Other non-operating revenues	(23,312)	7,206	12,555	(25)	(10,757)	7,181
Net Non-operating Revenue	932,893	651,733	12,212	(2,301)	945,105	649,432
Income before Other Revenues, Expenses, Gains or Losses	322,930	108,379	26,843	17,309	349,773	125,688
Other Changes in Net Position:						
State capital appropriations	75,127	42,188	-	-	75,127	42,188
Private capital gifts	41,176	19,072	-	-	41,176	19,072
Additions to permanent endowments	57,480	41,299	-	-	57,480	41,299
Transfers to (from) primary institution	15,967	9,861	(15,967)	(9,861)	-	-
Total Other Changes in Net Position	189,750	112,420	(15,967)	(9,861)	173,783	102,559
Increase in Net Position	512,680	220,799	10,876	7,448	523,556	228,247
Net Position - Beginning of Year	5,427,504	5,206,705	64,466	57,018	5,491,970	5,263,723
Net Position - End of Year	$ 5,940,184	$ 5,427,504	$ 75,342	$ 64,466	$ 6,015,526	$ 5,491,970

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

Consolidated Statements of CASH FLOWS

Years Ended June 30, 2013 and June 30, 2012 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2013	2012	2013	2012	2013	2012
Cash Flows from Operating Activities:						
Tuition and fee receipts	$ 716,689	$ 698,512	$ -	$ -	$ 716,689	$ 698,512
Grant and contract receipts	572,733	586,203	61,149	56,008	633,882	642,211
Receipts for sales and services	2,409,068	2,191,169	345,168	301,039	2,754,236	2,492,208
Receipts for parking service concession arrangement	453,546	22,000	-	-	453,546	22,000
Payments to or on behalf of employees	(1,978,812)	(2,011,340)	(223,225)	(207,235)	(2,202,037)	(2,218,575)
University employee benefit payments	(581,981)	(515,611)	(54,370)	(50,314)	(636,351)	(565,925)
Payments to vendors for supplies and services	(1,470,957)	(1,247,342)	(108,384)	(84,482)	(1,579,341)	(1,331,824)
Payments to students and fellows	(102,886)	(100,048)	-	-	(102,886)	(100,048)
Student loans issued	(9,400)	(10,495)	-	-	(9,400)	(10,495)
Student loans collected	10,719	10,024	-	-	10,719	10,024
Student loan interest and fees collected	2,228	2,152	-	-	2,228	2,152
Other receipts	61,658	92,946	939	2,412	62,597	95,358
Net cash provided (used) by operating activities	82,605	(281,830)	21,277	17,428	103,882	(264,402)
Cash Flows from Noncapital Financing Activities:						
State share of instruction and line-item appropriations	432,652	428,306	-	-	432,652	428,306
Non-exchange grant receipts	66,257	62,651	-	-	66,257	62,651
Gift receipts for current use	118,752	123,018	-	-	118,752	123,018
Additions to permanent endowments	57,480	41,299	-	-	57,480	41,299
Drawdowns of federal direct loan proceeds	384,505	386,400	-	-	384,505	386,400
Disbursements of federal direct loans to students	(369,049)	(397,721)	-	-	(369,049)	(397,721)
Disbursement of loan proceeds to related organization	(8,161)	(101)	-	-	(8,161)	(101)
Repayment of loans from related organization	574	217	-	-	574	217
Amounts received for annuity and life income funds	3,482	1,848	-	-	3,482	1,848
Amounts paid to annuitants and life beneficiaries	(3,737)	(3,761)	-	-	(3,737)	(3,761)
Agency funds receipts	3,352	2,805	-	-	3,352	2,805
Agency funds disbursements	(2,827)	(2,694)	-	-	(2,827)	(2,694)
Transfers from (to) primary institution	(18,816)	(10,801)	18,816	10,801	-	-
Net cash provided by noncapital financing activities	664,464	631,466	18,816	10,801	683,280	642,267
Cash Flows from Capital Financing Activities:						
Proceeds from capital debt	499,398	521,155	-	-	499,398	521,155
State capital appropriations	69,732	48,966	-	-	69,732	48,966
Gift receipts for capital projects	13,231	19,072	-	-	13,231	19,072
Payments for purchase or construction of capital assets	(608,138)	(568,222)	(4,398)	(6,638)	(612,536)	(574,860)
Principal payments on capital debt and leases	(243,738)	(64,271)	(30,682)	(13,516)	(274,420)	(77,787)
Interest payments on capital debt and leases	(92,005)	(79,770)	(713)	(3,269)	(92,718)	(83,039)
Federal subsidies for Build America Bonds interest	10,799	11,252	-	-	10,799	11,252
Net cash (used) by capital financing activities	(350,721)	(111,818)	(35,793)	(23,423)	(386,514)	(135,241)
Cash Flows from Investing Activities:						
Net (purchases) sales of temporary investments	(279,946)	199,007	296	(8,732)	(279,650)	190,275
Proceeds from sales and maturities of long-term investments	1,112,965	614,242	3,577	-	1,116,542	614,242
Investment income	83,167	64,906	370	993	83,537	65,899
Purchases of long-term investments	(1,589,478)	(868,679)	-	(3,056)	(1,589,478)	(871,735)
Net cash provided (used) by investing activities	(673,292)	9,476	4,243	(10,795)	(669,049)	(1,319)
Net Increase in Cash	(276,944)	247,294	8,543	(5,989)	(268,401)	241,305
Cash and Cash Equivalents - Beginning of Year	1,268,079	1,020,785	43,952	49,941	1,312,031	1,070,726
Cash and Cash Equivalents - End of Year	$ 991,135	$ 1,268,079	$ 52,495	$ 43,952	$ 1,043,630	$ 1,312,031

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

Consolidated Statements of CASH FLOWS

(Continued)

Years Ended June 30, 2013
and June 30, 2012 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2013	2012	2013	2012	2013	2012
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:						
Operating income (loss)	$ (609,963)	$ (543,354)	$ 14,631	$ 19,610	$ (595,332)	$ (523,744)
Adjustments to reconcile net operating loss to net cash used by operating activities:						
Depreciation expense	257,606	236,180	7,116	6,211	264,722	242,391
Changes in assets and liabilities:						
Accounts receivable, net	20,700	(46,194)	5,367	(8,896)	26,067	(55,090)
Notes receivable, net	(1,692)	139	716	(781)	(976)	(642)
Accrued interest receivable	2,228	(836)			2,228	(836)
Inventories and prepaid expenses	(2,967)	(4,509)	194	2,571	(2,773)	(1,938)
Accounts payable and accrued liabilities	(29,234)	32,104	(3,642)	(1,619)	(32,876)	30,485
Self-insurance accruals	(8,357)	13,373			(8,357)	13,373
Amounts due to third-party payers - Health System	(2,350)	(9,733)			(2,350)	(9,733)
Deposits and advance payments for goods and services	(51,401)	27,521	(170)	388	(51,571)	27,909
Compensated absences	11,256	13,874	(14)	17	11,242	13,891
Refundable advances for Federal Perkins loans	2,739	(181)			2,739	(181)
Deferred inflows	474,332	-			474,332	-
Other liabilities	19,708	(214)	(2,921)	(73)	16,787	(287)
Net cash provided (used) by operating activities	$ 82,605	$ (281,830)	$ 21,277	$ 17,428	$ 103,882	$ (264,402)
Non Cash Transactions:						
Capital Lease	$ 1,147	$ 10,473			$ 1,147	$ 10,473
Construction in Process in Accounts Payable	57,252	57,362			57,252	57,362
Stock Gifts	33,920	8,815			33,920	8,815

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

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

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

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

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

Basis of Presentation

The accompanying financial statements present the accounts of the following entities, which constitute the primary government for financial reporting purposes:

- The Ohio State University and its hospitals and clinics
- Ohio Agricultural Research and Development Center
- The Ohio Technology Consortium (OH-TECH)

In addition, these financial statements include component units – legally separate organizations for which the university is financially accountable. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

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

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

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

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

In addition to the blended component units described above, the university's financial statements include the following discretely presented component units:

- **The Ohio State University Physicians, Inc.** – The university appoints a voting majority of the board of the medical practice group for physician faculty members in the Colleges of Medicine and Public Health.
- **Campus Partners for Community Urban Redevelopment, Inc.** – The university appoints a voting majority of the board for this non-profit organization, which participates in the redevelopment of neighborhoods adjacent to the Columbus campus.

- **Transportation Research Center of Ohio, Inc.** – The university appoints a voting majority of the board for this automotive research and testing facility in East Liberty, Ohio.
- **Dental Faculty Practice Association, Inc.** – The university appoints a voting majority of the board for the dental practice group for faculty in the College of Dentistry.

Summary financial statement information for the university's blended and discretely presented component units is provided in Notes 19 and 20. Audited financial statements for component units considered to be material to the university may be obtained from the Office of the Controller. A total university column in the financial statements is provided as memorandum only for purposes of additional analysis by users.

The 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 Position; a Consolidated Statement of Revenues, Expenses and Other Changes in Net Position; a Consolidated Statement of Cash Flows; and Notes to the Financial Statements. In the Financial Statements, separate columns are presented for the primary institution (which includes the primary government and the blended component units), discretely presented component units and the total university. The Notes to the Financial Statements include separate disclosures for the primary institution and the discretely presented component units. Unless otherwise specified, the amounts presented in MD&A are those of the primary institution.

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

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

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

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

Cash and Investments

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

Investments are carried at 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, 2013, the university has made commitments to limited partnerships totaling $624,000 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 $522,000 that had not yet been funded as of June 30, 2012.

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, 2013 are $4,845 and $13,571, respectively. The carrying and market values of real estate at June 30, 2012 are $4,830 and $13,511, respectively.

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

Endowment Policy

All endowments are invested in the university's Long Term Investment Pool, which consists of more than 5,100 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, and the associated net position is classified as restricted-nonexpendable.

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, 2013, the market value of the university's gifted endowments was $1,530,734, which is $174,140 above the historical dollar value of $1,356,594. 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, 2013, there are 2,287 named funds that remain underwater. The market value of these underwater funds at June 30, 2013 is $671,524, which is $100,471 below the historical dollar value of $771,995. 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:

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Interest of $28,740 and $25,601 was capitalized in the years ended June 30, 2013 and 2012, 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.

Advance Payments for Goods and Services

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

Derivative Instruments and Hedging Activities

The university accounts for all derivative instruments on the statement of net position at fair value. Changes in the fair value (i.e., gains or losses) of the university's interest rate swap derivative are recorded each period in the consolidated statement of operations and changes in net position 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 Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness, substantially all university expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, current-use gifts and investment income.

Tuition, Room and Board

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

State Support

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

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

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

Such facilities are reflected as buildings or construction in progress in the accompanying statement of net position. Neither the obligations for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the university's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly.

These facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund and future payments to be received by such fund, which is established in the custody of the Treasurer of State.

Government Grants and Contracts

Government grants and contracts normally provide for the recovery of direct and indirect costs and are subject to audit by the appropriate government agency. Federal funds are subject to an annual OMB 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 (OSUP), a discretely presented component unit of the university, provides care to patients under various reimbursable agreements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement.

Charity Care and Community Benefit

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSUP. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off as administrative adjustments and not reported as net patient service revenue. OSU Health System and OSUP maintain records to identify and monitor the level of charity care provided, including the amount of charges foregone for services rendered. Net charity care costs for the OSU Health System as of June 30, 2013 and 2012 are $35,927 and $38,482, respectively, after applying reductions of $21,463 and $23,009, 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 OSUP as of June 30, 2013 and 2012 are $19,934 and $12,296, 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 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. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

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 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 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.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 requires mergers, which do not involve an exchange of consideration, to be accounted for using the carrying values of assets. Acquisitions are accounted for using acquisition values. The standard also provides guidance on reporting of disposals of government operations. It is effective for periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*. Statement No. 70 requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The standard also requires guarantors or issuers to disclose information about the amounts and nature of nonexchange financial guarantees. It is effective for periods beginning after June 15, 2013.

University management is currently assessing the impact that implementation of GASB Statements No. 65, 66, 67, 68, 69 and 70 will have on the university's financial statements.

Other

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

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2013, the carrying amount of the primary institution's cash, cash equivalents and restricted cash for all funds is $991,135 as compared to bank balances of $966,360. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $3,054 is covered by federal deposit insurance and $963,306 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2012, the carrying amount of the primary institution's cash, cash equivalents and restricted cash for all funds is $1,268,079 as compared to bank balances of $1,268,258. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $7,360 is covered by federal deposit insurance and $1,260,898 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2013, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash for all funds is $52,495 as compared to bank balances of $48,927. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $5,619 is covered by federal deposit insurance and $43,308 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2012, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash for all funds is $43,952 as compared to bank balances of $40,088. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $39,496 is covered by federal deposit insurance and $591 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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. Temporary Investment funds are invested in the following instruments with varying maturities: obligations of the U.S. Treasury and other federal agencies and instrumentalities, municipal and state bonds, corporate bonds, certificates of deposit, commercial paper, repurchase agreements, money market funds and mutual funds.

The Long-Term Investment Pool is a unitized investment pool consisting of gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and quasi-endowment funds which are internally designated funds that are to function as endowments. The Long-Term Investment Pool operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for the generation of a predictable stream of annual distribution. The university's Board of Trustees approved the following thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equity	10-50%	50% (ACWI) + 50%(50% ACWI + 4%)
Global Credit	10-50%	90 Day T-Bill s + 4%
Private Capital	10-25%	100% (Cambridge Associates Private Equity Medians)
Real Assets	10-25%	75% (CPI + 4%) + 25% (NACREIF Real Estate Index)

The Long Term Investment Pool is a diversified investment pool designed to produce competitive risk-adjusted returns that will provide real growth over time. Benchmarks are selected to measure the performance of the investments in each asset class considering the goals and expectations for each asset class.

The Global Equity category includes domestic equity, international equity, long biased long/short equity and emerging market equity managers. The Global Credit category includes fixed income, absolute return and credit oriented managers. The Private Capital category includes private equity and venture capital funds. The Real Assets category includes real estate, natural resource, commodity and infrastructure funds.

Mutual funds held by the university invest in a wide range of alternative investments. These investments 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 assets 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, gift annuities, annuity trust and pooled income agreements, life insurance policies for which the OSU Foundation has been named owner and beneficiary, and certain real estate investments. Also included in this category are investments in certain organizations that are affiliated with the OSU Health System.

U.S. Government and Agency securities are invested through trust agreements with banks who keep the securities in their safekeeping accounts at the Federal Reserve Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the university. Common stocks, corporate bonds and money market instruments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at Northern Trust and BNY Mellon in "book entry" form. The banks internally designate the securities as owned by or pledged to the university.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

The cash and cash equivalents amount represents cash held in the long-term investment pool by various investment managers as of June 30, 2013. Such amounts were generated by gifts received throughout the fiscal year and sales of investments in the long-term investment pool. Subsequently, the cash and cash equivalents will be used to purchase long-term investments.

Total university investments by major category for the primary institution at June 30, 2013 and 2012 are as follows:

	2013	2012
Temporary Investments	$ 1,009,234	$ 729,288
Long-Term Investment Pool:		
Gifted Endowment - University	941,031	878,707
Gifted Endowment - OSU Foundation	589,702	500,824
Quasi Endowment - Operating	1,055,699	942,592
Quasi Endowment - Designated	562,737	43,910
Total Long-Term Investment Pool	3,149,169	2,366,033
Other Long-Term Investments	69,358	71,663
Total Investments	$ 4,227,761	$ 3,166,984

Total university investments by investment type for the primary institution at June 30, 2013 are as follows:

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Total
Common stock	$ 3	$ 369,745	$ -	$ 369,748
Equity mutual funds	69,846	152,708	23,522	246,076
U.S. government obligations	106,380	24,956	3,147	134,483
U.S. government agency obligations	119,943	66,430	-	186,373
Repurchase agreements	42,244	9,600	-	51,844
Corporate bonds and notes	483,267	78,390	261	561,918
Bond mutual funds	136,986	-	20,118	157,104
Foreign government bonds	18,604	14,855	-	33,459
Real estate	5	-	4,848	4,853
Partnerships and hedge funds	-	2,288,377	822	2,289,199
Commercial paper	21,733	-	-	21,733
Cash and cash equivalents	-	141,510	-	141,510
Other	10,223	2,598	16,640	29,461
	$ 1,009,234	$ 3,149,169	$ 69,358	$ 4,227,761

Total university investments by investment type for the primary institution 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	5	-	4,788	4,793
Partnerships and hedge funds	-	1,729,258	975	1,730,233
Cash and cash equivalents	-	124,218	-	124,218
Other	2,376	3,248	18,505	24,129
	$ 729,288	$ 2,366,033	$ 71,663	$ 3,166,984

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

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

	Interest and Dividends (net)	Net Increase (Decrease) in Fair Value of Investments	Net Investment Income (Loss)
Temporary Investments	$ 13,258	$ 1,696	$ 14,954
Long-Term Investment Pool	67,422	304,318	371,740
Other Long-Term Investments	(3,222)	3,044	(178)
Total 2013	$ 77,458	$ 309,058	$ 386,516
Total 2012	$ 68,889	$ (9,705)	$ 59,184

Additional Risk Disclosures for Investments

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the custodial, 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 for the primary institution at June 30, 2013 are as follows:

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 134,483	$ 27,707	$ 91,981	$ 6,650	$ 8,145
U.S. agency obligations	186,373	18,361	80,686	18,019	69,307
Repurchase agreements	51,844	51,844	-	-	-
Commercial paper	21,733	21,733	-	-	-
Corporate bonds	561,918	84,924	392,929	26,633	57,432
Bond mutual funds	157,104	6,352	66,481	26,563	57,708
Other governmental bonds	11,188	1,514	6,189	1,365	2,120
Foreign governmental bonds	33,459	9,091	13,638	8,566	2,164
Total	$ 1,158,102	$ 221,526	$ 651,904	$ 87,796	$ 196,876

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2012 are as follows:

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 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

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the custodian, university investments may not be recovered. It is the policy of the university to hold investments in custodial accounts, and the securities are registered solely in the name of the university. All investments are transacted with nationally reputable brokerage firms offering protection by the Securities Investor Protection Corporation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating 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, 2013, and 2012.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2013 are as follows:

	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Commercial Paper	Corporate Bonds	Bond Mutual Funds	Other Governmental Bonds	International Bonds
AAA	$ 198,324	$ -	$ -	$ -	$ 77,958	$ 115,167	$ -	$ 5,199
AA	437,726	266,979	51,844	-	90,681	10,936	7,430	9,856
A	296,201	6,281	-	19,733	236,243	20,542	2,858	10,544
BBB	126,345	1,537	-	-	114,791	9,571	-	446
BB	10,669	-	-	-	9,193	115	-	1,361
B	6,146	-	-	-	6,146	-	-	-
CCC	3,281	-	-	-	2,581	700	-	-
CC	1,764	-	-	-	1,764	-	-	-
C	-	-	-	-	-	-	-	-
D	15,608	-	-	-	15,608	-	-	-
Not rated	62,038	46,059	-	2,000	6,953	73	900	6,053
Total	$ 1,158,102	$ 320,856	$ 51,844	$ 21,733	$ 561,918	$ 157,104	$ 11,188	$ 33,459

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

	Total	U.S. Government and Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds	Other Governmental Bonds	International Bonds
AAA	$ 148,535	$ -	$ -	$ 59,540	$ 79,656	$ 8,119	$ 1,220
AA	464,216	225,004	179,443	45,404	4,614	7,093	2,658
A	160,828	932	-	122,902	27,884	8,969	141
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	$ 31,851	$ 4,019

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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, 2013, exposure to foreign currency risk for the primary institution is as follows:

	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	Foreign Government Bonds	Private Equity
Australian dollar	$ 730	$ 7,298	$ 100	$ (38)	$ 530	$ 22,017
Brazilian real	6,650	815	51	(293)	-	-
Canadian dollar	422	2,150	164	-	1,505	-
Chilean peso	1,197	126	10	-	-	-
Chinese yuan	-	2,127	1	-	-	-
Columbian peso	-	58	-	-	-	-
Czech Republic koruna	1,021	298	-	-	-	-
Danish krone	-	261	72	1,002	-	-
Egyptian pound	786	-	-	-	-	-
Euro	11,620	20,854	2,858	4,722	12,358	43,499
Great Britain pound sterling	12,182	23,272	619	1,430	2,844	-
Hong Kong dollar	15,481	2,677	-	-	-	-
Hungarian forint	-	30	-	-	-	-
Indian rupee	5,147	507	4	-	-	-
Indonesian rupiah	1,224	220	28	-	298	-
Israeli shekel	-	126	-	-	-	-
Japanese yen	3,701	22,510	2,823	-	4,008	-
Malaysian ringgit	97	288	-	-	290	-
Mexican peso	1,463	348	94	-	4,488	-
Moroccan dirham	-	-	-	-	-	-
New Taiwan dollar	6,925	812	-	-	-	-
New Zealand dollar	-	29	(8)	-	-	-
Norwegian krone	-	1,084	-	-	-	-
Peruvian nuevo sol	-	32	-	-	-	-
Philippine peso	-	93	-	-	-	-
Polish zloty	-	95	-	-	-	-
Russian ruble	-	379	1	-	-	-
Singapore dollar	-	4,149	-	-	-	-
South African rand	6,397	526	7	-	1,386	-
South Korean won	-	977	-	-	-	-
Sri Lanka rupee	9,439	-	-	-	770	-
Swedish krona	512	3,275	44	-	-	-
Swiss franc	8,896	4,267	-	-	-	-
Thailand bhat	519	195	-	-	-	-
Turkish lira	1,613	127	-	-	-	-
UAE dirham	1,135	28	-	-	-	-
Total	$ 97,157	$ 100,033	$ 6,868	$ 6,823	$ 28,477	$ 65,516

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

At June 30, 2012, exposure to foreign currency risk for the primary institution is as follows:

	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
Brazilian 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	-	-	-	-
Indonesian 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	-	-	-
Norwegian krone	-	951	-	-	-	-
Peruvian nuevo sol	-	32	-	-	-	-
Philippine 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

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable for the primary institution at June 30, 2013 and 2012 consist of the following:

	2013	2012
Patient receivables - OSU Health System	$ 867,202	$ 998,615
Grant and contract receivables	81,621	66,887
Tuition and fees receivable	23,667	43,116
Receivables for departmental and auxiliary sales and services	50,250	39,010
State and federal receivables	12,525	24,460
Other receivables	30	45
Total receivables	1,035,295	1,172,133
Less: Allowances for doubtful accounts	649,330	755,407
Total receivables, net	$ 385,965	$ 416,726

Allowances for doubtful accounts consist primarily of patient receivables of the OSU Health System.

Notes receivable consist primarily of Perkins and health professions loans and are net of an allowance for doubtful accounts of $18,000 and $20,000 at June 30, 2013 and 2012, respectively. Federal capital contributions to the Perkins loan programs represent advances which are ultimately refundable to the federal government.

In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-exchange Transactions*, the university has recorded $105,515 in non-endowment pledges receivable and a related allowance for doubtful accounts of $6,369 at June 30, 2013. The university recorded $72,643 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,898 at June 30, 2012.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the primary institution for the year ended June 30, 2013 is summarized as follows:

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 71,062	$ -	$ 1,871	$ 69,191
Intangibles	7,913	10,500	-	18,413
Construction in progress	911,390	658,019	706,804	862,605
Total non depreciable assets	990,365	668,519	708,675	950,209
Capital assets being depreciated:				
Improvements other than buildings	306,614	199,426	6,921	499,119
Buildings and fixed equipment	4,075,761	370,019	915	4,444,865
Movable equipment, furniture and software	995,547	92,552	51,340	1,036,759
Library books	162,250	4,655	932	165,973
Total	5,540,172	666,652	60,108	6,146,716
Less: Accumulated depreciation	2,765,212	256,722	61,401	2,960,533
Total depreciable assets, net	2,774,960	409,930	(1,293)	3,186,183
Capital assets, net	$ 3,765,325	$ 1,078,449	$ 707,382	$ 4,136,392

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

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 70,066	$ 1,021	$ 25	$ 71,062
Intangibles	7,913	-	-	7,913
Construction in progress	535,908	375,482	-	911,390
Total non depreciable assets	613,887	376,503	25	990,365
Capital assets being depreciated:				
Improvements other than buildings	304,198	2,416	-	306,614
Buildings and fixed equipment	3,970,390	112,681	7,310	4,075,761
Movable equipment, furniture and software	909,611	124,164	38,228	995,547
Library books	159,541	4,076	1,367	162,250
Total	5,343,740	243,337	46,905	5,540,172
Less: Accumulated depreciation	2,569,143	236,180	40,111	2,765,212
Total depreciable assets, net	2,774,597	7,157	6,794	2,774,960
Capital assets, net	$ 3,388,484	$ 383,660	$ 6,819	$ 3,765,325

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Capital assets activity for the discretely presented component units for the year ended June 30, 2013 is summarized as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 4,621	$ 1,173	$ -	$ 5,794
Intangibles	-	-	-	-
Construction in progress	-	15	-	15
Total non depreciable assets	4,621	1,188	-	5,809
Capital assets being depreciated:				
Improvements other than buildings	7,043	378	-	7,421
Buildings and fixed equipment	48,273	331	-	48,604
Movable equipment, furniture and software	58,405	3,384	-	61,789
Library books	-	-	-	-
Total	113,721	4,093	-	117,814
Less: Accumulated depreciation	35,461	8,000	-	43,461
Total depreciable assets, net	78,260	(3,907)	-	74,353
Capital assets, net	$ 82,881	$ (2,719)	$ -	$ 80,162

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

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 3,947	$ 674	$ -	$ 4,621
Intangibles	-	-	-	-
Construction in progress	-	-	-	-
Total non depreciable assets	3,947	674	-	4,621
Capital assets being depreciated:				
Improvements other than buildings	5,099	1,944	-	7,043
Buildings and fixed equipment	50,198	-	1,925	48,273
Movable equipment, furniture and software	46,532	11,873	-	58,405
Library books	-	-	-	-
Total	101,829	13,817	1,925	113,721
Less: Accumulated depreciation	29,250	6,211	-	35,461
Total depreciable assets, net	72,579	7,606	1,925	78,260
Capital assets, net	$ 76,526	$ 8,280	$ 1,925	$ 82,881

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

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses for the primary institution at June 30, 2013 and 2012 consist of the following:

	2013	2012
Payables to vendors for supplies and services	$ 212,179	$ 249,993
Accrued compensation and benefits	81,971	80,568
Retirement system contributions payable	52,552	54,111
Other accrued expenses	38,304	29,323
Total payables and accrued expenses	$ 385,006	$ 413,995

NOTE 7 – DEPOSITS AND ADVANCE PAYMENTS FOR GOODS AND SERVICES

Deposits and advance payments for goods and services for the primary institution at June 30, 2013 and 2012 consist of the following:

	2013	2012
Current deposits and advance payments:		
Tuition and fees	$ 41,026	$ 54,743
Departmental and auxiliary sales and services	70,642	77,341
Parking service concession	-	22,000
Grants and contracts advances	56,723	66,990
Other deposits and advance payments	11,045	9,226
Total current deposits and advance payments	$ 179,436	$ 230,300
Other non-current liabilities	$ 25,219	$ 27,852

NOTE 8 – SELF-INSURANCE ACCRUALS

The university maintains self-insurance programs for professional medical malpractice, employee health insurance and workers' compensation. Information on each of these programs is provided below.

Medical Malpractice

The 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 – 6/30/13	$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 per occurrence and $14 million in the aggregate. A portion of the risks written by Oval Limited to date is reinsured by three reinsurance companies. Oval Limited retains 50% of the first $15 million of risk and cedes the remainder to Berkley Medical Excess Underwriters (rated A+ by A.M. Best). The next $20 million is fully ceded to Lexington Insurance Company (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 loss reserve are based upon an independent actuarial determination as of June 30, 2013. OSUP participates in the university self-insurance fund for professional medical malpractice liability claims.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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, 2013 of the anticipated future payments on gross claims is estimated at its present value of $78,995 discounted at an estimated rate of 3% (university funds) and an additional $38,313 discounted at an estimated rate of 3% (Oval Limited).

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $163,039 (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, 2013, and the surplus of $45,732 is included in unrestricted net assets.

Employee Health Insurance

The university is also self-insured for employee health insurance. As of June 30, 2013, $36,326 is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Workers' Compensation

Effective January 1, 2013, the university became self-insured for workers' compensation. As of June 30, 2013, $730 is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Changes in reported self-insurance liabilities for the primary institution since June 30, 2011 result from the following activities:

	Malpractice 2013	Malpractice 2012	Health 2013	Health 2012	Workers' Compensation 2013	Workers' Compensation 2012
Liability at beginning of fiscal year	$ 118,339	$ 120,631	$ 42,703	$ 29,507	$ -	$ -
Current year claims, changes in estimates	1,125	839	293,970	287,730	1,412	-
Claim payments	(7,456)	(3,131)	(300,347)	(274,534)	(682)	-
Balance at fiscal year end	$ 112,008	$ 118,339	$ 36,326	$ 42,703	$ 730	$ -

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.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Debt activity for the primary institution for the year ended June 30, 2013 is as follows:

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 3,075	$ -	$ 250	$ 2,825	$ 159
OH Air Quality Note Series A	-	4,602	-	4,602	368
OH Air Quality Note Series B	-	2,340	-	2,340	-
St. Stephens Church Note	-	3,000	-	3,000	63
General Receipts Bonds - Fixed Rate:					
2002A, due serially through 2031	4,130	-	4,130	-	-
2003B, due serially through 2033	29,300	-	29,300	-	-
2005A, due serially through 2035	180,030	-	121,770	58,260	10,860
2008A, due serially through 2028	180,265	-	30,235	150,030	12,620
2010A, due serially through 2020	231,960	-	29,910	202,050	27,390
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	88,335	-	3,710	84,625	-
2011, due 2111	500,000	-	-	500,000	-
2012A, due 2030	-	91,165	665	90,500	-
2012B, due 2033	-	23,170	570	22,600	1,840
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	-	337,955	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	11,800	-	1,035	10,765	10,765
2001, due serially through 2032	56,540	-	3,505	53,035	53,035
2003C, due serially through 2031	53,230	-	1,255	51,975	51,975
2005B, due serially through 2035	78,735	-	7,160	71,575	71,575
2008B, due serially through 2028	102,235	-	10,310	91,925	91,925
2010E, due serially through 2035	150,000	-	-	150,000	150,000
Capital Lease Obligations	20,149	-	5,918	14,231	4,015
	2,361,729	462,232	249,723	2,574,238	503,750
Unamortized Bond Premiums	66,042	51,854	10,500	107,396	-
Total outstanding debt	$ 2,427,771	$ 514,086	$ 260,223	$ 2,681,634	$ 503,750

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 3,325	$ -	$ 250	$ 3,075	$ 250
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	14,843	10,473	5,167	20,149	5,922
	1,910,653	510,473	59,397	2,361,729	530,047
Unamortized Bond Premiums	59,830	10,570	4,358	66,042	-
Total outstanding debt	$ 1,970,483	$ 521,043	$ 63,755	$ 2,427,771	$ 530,047

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Debt activity for the discretely presented component units for the year ended June 30, 2013 is as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
Transportation Research Center Capital One Funding Corporation, due through 2014	$ 643	$ -	$ 311	$ 332	$ 332
OSU Physicians - Fifth Third Note, due through 2035	16,030	2,627	705	17,952	790
OSU Physicians - Fifth Third Note, due through 2013	77	85	83	79	61
Campus Partners - UDCDE Note A	21,859	-	21,859	-	-
Campus Partners - UDCDE Note B	10,376	-	10,376	-	-
Campus Partners - CCF Loan, City of Columbus	125	-	-	125	-
Capital Lease Obligations	103	-	60	43	43
Total outstanding debt	$ 49,213	$ 2,712	$ 33,394	$ 18,531	$ 1,226

Debt activity for the discretely presented component units for the year ended June 30, 2012 is as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
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 - Mortgage payable	-	-	-	-	-
Campus Partners - CCF Loan, City of Columbus	125	-	-	125	125
Campus Partners - Affordable Housing Trust Loan	500	-	500	-	-
Capital Lease Obligations	165	-	62	103	62
Total outstanding debt	$ 63,230	$ 15	$ 14,032	$ 49,213	$ 23,104

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Debt obligations are generally callable by the university, bear interest at fixed and variable rates ranging from 0% to 6% and mature at various dates through 2112. Maturities and interest on debt obligations for the next five years and in five-year periods for the primary institution are as follows:

Primary Institution

	Principal	Interest	Total
2014	$ 503,751	$ 96,725	$ 600,476
2015	58,147	93,991	152,138
2016	57,754	91,295	149,049
2017	60,448	88,748	149,196
2018	60,815	86,045	146,860
2019-2023	184,223	409,191	593,414
2024-2028	170,143	374,079	544,222
2029-2033	124,745	340,722	465,467
2034-2038	89,207	326,314	415,521
2039-2043	765,005	208,844	973,849
2044-2048	-	120,000	120,000
2049-2053	-	120,000	120,000
2054-2058	-	120,000	120,000
2059-2063	-	120,000	120,000
2064-2068	-	120,000	120,000
2069-2073	-	120,000	120,000
2074-2078	-	120,000	120,000
2079-2083	-	120,000	120,000
2084-2088	-	120,000	120,000
2089-2093	-	120,000	120,000
2094-2098	-	120,000	120,000
2099-2103	-	120,000	120,000
2104-2108	-	120,000	120,000
2109-2112	500,000	72,000	572,000
	$ 2,574,238	$ 3,747,954	$ 6,322,192

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

Discretely Presented Component Units

	Principal	Interest	Total
2014	$ 1,226	$ 392	$ 1,618
2015	950	258	1,208
2016	824	340	1,164
2017	842	322	1,164
2018	860	304	1,164
2019-2023	4,567	1,228	5,795
2024-2028	3,550	794	4,344
2029-2033	3,943	400	4,343
2034-2038	1,769	41	1,810
	$ 18,531	$ 4,079	$ 22,610

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 $130,631 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 for the primary institution are as follows:

	Amount Defeased	Amount Outstanding at June 30, 2013
General Receipts Bonds:		
Series 1999B	$ 1,035	$ -
Series 2001	3,505	-
Series 2002A	77,400	-
Series 2003B	120,300	-
Series 2003C	1,255	-
Series 2005A	111,380	111,380
Series 2005B	7,160	-
Series 2008A	18,195	18,195
Series 2008B	10,310	-
Series 2010A	13,050	13,050
Series 2010D	3,710	3,710
	$ 367,300	$ 146,335

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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

Special-Purpose General Receipts Bonds

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

Variable Rate Demand Bonds

Series 1997, 1999B1, 2001, 2003C, 2005B, 2008B 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, 2013 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.830%
1999 B1	12%	1.594%
2001	12%	1.363%
2003 C	12%	1.663%
2005 B	12%	1.362%
2008 B	12%	0.395%
2010 E	8%	0.133%

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 position classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation No. 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $446,435 and $469,700 at June 30, 2013 and 2012, respectively.

Capital Lease Obligations

Some university equipment items and vehicles are financed as capital leases. The original cost and lease obligations related to these capital leases as of June 30, 2013 are $44,924 and $14,273, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2012 are $50,734 and $20,252, respectively.

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.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

In addition, OSUP, a discretely presented component unit of the university, has one interest rate swap agreements that is not considered a hedge under GASB Statement No. 53. 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. On May 1, 2013, at the same time the 2010 bond financing was refinanced, the swap was paid off with the proceeds from a term loan issuance in the amount of $2,635. At June 30, 2013, OSUP held no other derivative instruments.

NOTE 10 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the statement of net position. The total rental expense under these agreements was $29,717 and $37,386 for the years ended June 30, 2013 and 2012, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2013 are as follows:

Year Ending June 30,	Primary Institution	Discretely Presented Component Units
2014	$ 21,386	$ 3,613
2015	13,745	2,380
2016	11,068	1,927
2017	10,418	1,699
2018	9,732	1,041
2019-2023	39,842	212
2024-2028	32,853	-
2029-2033	13,718	-
2034-2038	723	-
2039-2043	723	-
2044-2048	723	-
Total minimum lease payments	$ 154,931	$ 10,872

NOTE 11 — COMPENSATED ABSENCES

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

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

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

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

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

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 12 — OTHER LIABILITIES

Other liability activity for the primary institution for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 138,521	$ 23,282	$ 12,026	$ 149,777	$ 12,040
Self-insurance accruals	163,542	293,325	307,803	149,064	42,213
Amounts due to third party payers	25,026	3,697	13,716	15,007	3,641
Obligations under life income agreements	37,605	3,506	3,761	37,350	3,648
Refundable advances for Federal Perkins loans	28,706	2,739	-	31,445	-
Other noncurrent liabilities	27,852	33,497	-	61,349	1,500
	$ 421,252	$ 360,046	$ 337,306	$ 443,992	$ 63,042

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 124,646	$ 26,009	$ 12,134	$ 138,521	$ 12,134
Self-insurance accruals	150,138	291,068	277,664	163,542	48,334
Amounts due to third party payers	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	-
	$ 388,128	$ 350,314	$ 317,190	$ 421,252	$ 75,295

NOTE 13 – RENTALS UNDER OPERATING LEASES

The university is the lessor of certain land, buildings, office and retail space under operating lease agreements. Future minimum rental income from non-cancelable operating leases for the primary institution as of June 30, 2013 is as follows:

Year Ending June 30,	
2014	$ 8,987
2015	7,287
2016	6,597
2017	6,330
2018	6,246
2019-2023	29,223
2024-2028	28,283
2029-2033	27,413
2034-2038	26,781
2039-2043	26,767
2044-2048	2,669
2049-2053	-
Total minimum future rentals	$ 176,583

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 14 – OPERATING EXPENSES BY OBJECT

In accordance with requirements set forth by the Ohio Board of Regents, the university reports operating expenses by functional classification on the Statement of Revenues, Expenses and Other Changes in Net Position. Operating expenses by object for the primary institution for the years ended June 30, 2013 and 2012 are summarized as follows:

Year Ended June 30, 2013

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 794,042	$ 112,297	$ -	$ -	$ 906,339
Separately budgeted research	274,865	139,120	-	-	413,985
Public service	73,476	23,102	-	-	96,578
Academic support	134,030	36,112	-	-	170,142
Student services	71,901	22,336	-	-	94,237
Institutional support	159,208	112,529	-	-	271,737
Operation and maintenance of plant	32,224	61,543	-	-	93,767
Scholarships and fellowships	7,517	961	102,886	-	111,364
Auxiliary enterprises	140,533	101,843	-	-	242,376
OSU Health System	977,766	818,815	-	-	1,796,581
Depreciation	-	-	-	257,606	257,606
Total operating expenses	$ 2,665,564	$ 1,428,657	$ 102,886	$ 257,606	$ 4,454,712

Year Ended June 30, 2012

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 803,848	$ 71,952	$ -	$ -	$ 875,800
Separately budgeted research	272,539	156,737	-	-	429,276
Public service	72,013	26,673	-	-	98,686
Academic support	124,659	38,124	-	-	162,783
Student services	68,026	22,467	-	-	90,493
Institutional support	150,265	67,383	-	-	217,648
Operation and maintenance of plant	35,413	67,682	-	-	103,095
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
Depreciation	-	-	-	236,180	236,180
Total operating expenses	$ 2,657,725	$ 1,267,955	$ 100,048	$ 236,180	$ 4,261,907

NOTE 15 — RETIREMENT PLANS

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

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

Defined Benefit Plans

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

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

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

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

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under 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 2012, OPERS allocated 4.0% of the employer contribution rate to fund the health care program for retirees, and this rate was reduced to 1% for calendar year 2013 as recommended by the OPERS actuary.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012 with a transition plan commencing January 1, 2014. OPERS expects to be able to allocate on a consistent basis 4% of employer contributions toward the health care fund after the end of the transition period.

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 costs in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll for post-employment health care.

Post-employment 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, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

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 post-retirement 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 post-retirement health care benefits.

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

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar year 2012, OPERS allocated 6.05% of the employer contribution rate to fund the health care program for retirees, and this rate was reduced to 1% for calendar year 2013 as recommended by the OPERS actuary.

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:			
Plan member (entire year)		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, 2013 and for each of the two preceding years are as follows:

	STRS Ohio Annual Required Contribution	OPERS Annual Required Contribution	ARP Annual Required Contribution
Year Ended June 30, 2011	$54,725	$148,120	$40,835
Year Ended June 30, 2012	$58,006	$153,118	$43,523
Year Ended June 30, 2013	$61,667	$159,903	$47,062

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

OSU Physicians Retirement Plan

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some subsidiaries make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was $3,850 and $7,119 for the years ended June 30, 2013 and 2012, respectively.

Employee contributions were $1,096 and $1,895 for the years ended June 30, 2013 and 2012. The reduction in Fiscal Year 2013 was directly related to physician integration into the Faculty Practice Group.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2013, the university is committed to future contractual obligations for capital expenditures of approximately $750,682.

These projects are funded by the following sources:

State appropriations	$ 41,212
Internal and other sources	709,470
Total	$ 750,682

NOTE 17 — CONTINGENCIES AND RISK MANAGEMENT

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

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

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

NOTE 18 — PARKING LEASE AND CONCESSION AGREEMENT

On September 21, 2012, the university entered into a 50-year lease and concession agreement with QIC Global Infrastructure (QIC GI). CampusParc LP, a QIC GI affiliate, owns and operates the university's parking concession on QIC GI's behalf. Under the agreement, CampusParc will operate, maintain and retain parking revenues from the university's parking lots and garages. This agreement also regulates the parking rates that may be charged and future increases in these rates. The university received lump-sum payments totaling $483,000 from QIC GI and used the proceeds to establish endowment funds, with income distributions internally designated to support student scholarships, faculty initiatives and research, transportation and sustainability and the university arts district. The university reports the parking lots and garages as capital assets with a carrying amount of $124,009 at June 30, 2013 and reports a deferred inflow of resources in the amount of $474,332 at June 30, 2013, pursuant to the service concession arrangement.

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 19 – COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a blended presentation. Condensed combining financial information for the years ended June 30, 2013 and 2012 is presented below and on the next page.

Condensed Combining Information – Year Ended June 30, 2013

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 36,509	$ 3,076	$ 50,207
Capital assets, net	3,853	(6)	-
Other assets	711,372	586	-
Amounts receivable from the university	-	-	-
Deferred outflows	-	-	-
Total assets and deferred inflows	$ 751,734	$ 3,656	$ 50,207
Current liabilities	$ 6,760	$ 129	$ 3,046
Noncurrent liabilities	33,272	-	35,313
Amounts payable to the university	137	-	-
Deferred inflows	-	-	-
Total liabilities and deferred inflows	40,169	129	38,359
Invested in capital assets, net of related debt	7,934	-	-
Restricted:			
Nonexpendable	587,508	-	-
Expendable	120,994	-	-
Unrestricted	(4,871)	3,527	11,848
Total net position	711,565	3,527	11,848
Total liabilities, deferred inflows and net position	$ 751,734	$ 3,656	$ 50,207

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Grants and contracts	$ -	$ -	$ -
Sales and services of OSU Physicians	-	-	-
Other sales, services and rental income	768	12,376	(986)
Other operating	-	-	-
Total operating revenues	768	12,376	(986)
Operating expenses, excluding depreciation	5,295	11,660	169
Depreciation expense	228	-	-
Total operating expenses	5,522	11,660	169
Net operating income (loss)	(4,755)	716	(1,155)
Non-operating revenues and expenses:			
Gifts for current use	122,208	-	-
Net investment income (loss)	71,420	-	1,837
Interest expense	-	-	-
Other non-operating revenue (expense)	-	(137)	-
Net non-operating revenue (expense)	193,628	(137)	1,837
Capital contributions and additions to permanent endowments	96,653	-	-
Transfers from (to) the university	(168,878)	-	-
Change in net position	116,648	579	682
Beginning net position	594,916	2,948	11,166
Ending net position	$ 711,565	$ 3,527	$ 11,848
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (4,176)	$ 682	$ (1,280)
Noncapital financing activities	(23,978)	-	-
Capital and related financing activities	41,176	(136)	-
Investing activities	(13,036)	6	(1,492)
Net increase (decrease) in cash	(14)	552	(2,772)
Beginning cash and cash equivalents	2,562	2,077	12,291
Ending cash and cash equivalents	$ 2,548	$ 2,629	$ 9,519

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2012

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 28,975	$ 2,524	$ 46,312
Capital assets, net	4,081	(5)	-
Other assets	600,294	593	-
Amounts receivable from the university	804	-	-
Deferred outflows	-	-	-
Total assets and deferred inflows	$ 634,153	$ 3,111	$ 46,312
Current liabilities	$ 5,288	$ 163	$ 43
Noncurrent liabilities	33,647	-	35,103
Amounts payable to the university	302	-	-
Deferred inflows	-	-	-
Total liabilities and deferred inflows	39,237	163	35,146
Invested in capital assets, net of related debt	4,081	-	-
Restricted:			
Nonexpendable	509,066	-	-
Expendable	81,871	-	-
Unrestricted	(101)	2,948	11,166
Total net position	594,916	2,948	11,166
Total liabilities, deferred inflows and net position	$ 634,153	$ 3,111	$ 46,312

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Grants and contracts	$ -	$ -	$ -
Sales and services of OSU Physicians	-	-	-
Other sales, services and rental income	2,216	12,674	1,884
Other operating	-	-	-
Total operating revenues	2,216	12,674	1,884
Operating expenses, excluding depreciation	4,854	11,723	152
Depreciation expense	228	-	-
Total operating expenses	5,082	11,723	152
Net operating income (loss)	(2,866)	951	1,733
Non-operating revenues and expenses:			
Gifts for current use	139,599	-	-
Net investment income (loss)	10,662	(2)	219
Interest expense	-	-	-
Other non-operating revenue (expense)	-	3,375	-
Net non-operating revenue (expense)	150,261	3,373	219
Capital contributions and additions to permanent endowments	60,262	-	-
Transfers from (to) the university	(171,156)	(9)	-
Change in net position	36,501	4,316	1,951
Beginning net position	558,416	(1,367)	9,215
Ending net position	$ 594,916	$ 2,948	$ 11,166
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (356)	$ 1,085	$ 1,544
Noncapital financing activities	(13,875)	(9)	-
Capital and related financing activities	19,072	3,381	-
Investing activities	(5,243)	(595)	(1,454)
Net increase (decrease) in cash	(402)	3,862	90
Beginning cash and cash equivalents	2,964	(1,786)	12,201
Ending cash and cash equivalents	$ 2,562	$ 2,077	$ 12,291

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 20 – COMBINING INFORMATION FOR DISCRETELY PRESENTED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a discrete presentation. Condensed combining financial information for the years ended June 30, 2013 and 2012 is presented below and on the next page.

Condensed Combining Information – Year Ended June 30, 2013

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 97,054	$ 9,488	$ 8,275	$ 1,069
Capital assets, net	29,731	49,573	633	225
Other assets	1,843	1,643	-	-
Amounts receivable from the university	10,275	-	3,535	-
Deferred outflows	-	-	-	-
Total assets and deferred inflows	$ 138,904	$ 60,705	$ 12,443	$ 1,294
Current liabilities	$ 18,957	$ 3,229	$ 3,596	$ 115
Noncurrent liabilities	18,637	168	-	-
Amounts payable to the university	22,862	70,438	-	-
Deferred inflows	-	-	-	-
Total liabilities and deferred inflows	60,457	73,835	3,596	115
Invested in capital assets, net of related debt	3,016	49,448	-	-
Restricted:				
Nonexpendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	75,431	(62,579)	8,846	1,179
Total net position	78,447	(13,130)	8,846	1,179
Total liabilities, deferred inflows and net position	$ 138,904	$ 60,705	$ 12,443	$ 1,294

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position				
Operating revenues:				
Grants and contracts	$ -	$ 10,811	$ 50,420	$ -
Sales and services of OSU Physicians	331,817	-	-	-
Other sales, services and rental income	-	941	-	7,354
Other operating	-	-	-	-
Total operating revenues	331,817	11,753	50,420	7,354
Operating expenses, excluding depreciation	316,080	8,535	50,105	4,877
Depreciation expense	4,317	2,380	419	-
Total operating expenses	320,398	10,915	50,524	4,877
Net operating income (loss)	11,419	838	(104)	2,478
Non-operating revenues and expenses:				
Gifts for current use	-	-	-	-
Net investment income (loss)	239	-	131	-
Interest expense	(713)	-	-	-
Other non-operating revenue (expense)	2,115	10,440	-	-
Net non-operating revenue (expense)	1,641	10,440	131	-
Capital contributions and additions to permanent endowments	-	-	-	-
Transfers from (to) the university	(7,895)	(3,374)	(1,589)	(3,110)
Change in net position	5,165	7,904	(1,562)	(632)
Beginning net position	73,282	(21,035)	10,408	1,811
Ending net position	$ 78,447	$ (13,130)	$ 8,846	$ 1,179
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 16,364	$ 1,913	$ 546	$ 2,457
Noncapital financing activities	(8,670)	32,327	(1,734)	(3,110)
Capital and related financing activities	(933)	(34,296)	(565)	-
Investing activities	3,591	-	131	521
Net increase (decrease) in cash	10,352	(56)	(1,621)	(132)
Beginning cash and cash equivalents	35,933	5,321	2,327	371
Ending cash and cash equivalents	$ 46,285	$ 5,265	$ 706	$ 239

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2012

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 92,605	$ 7,665	$ 10,825	$ 1,708
Capital assets, net	31,965	49,893	797	225
Other assets	5,464	2,713	-	-
Amounts receivable from the university	6,440	-	3,390	-
Deferred outflows	-	-	-	-
Total assets and deferred inflows	$ 136,474	$ 60,272	$ 15,012	$ 1,934
Current liabilities	$ 21,497	$ 25,696	$ 4,272	$ 123
Noncurrent liabilities	19,779	10,433	332	-
Amounts payable to the university	21,917	45,178	-	-
Deferred inflows	-	-	-	-
Total liabilities and deferred inflows	63,192	81,306	4,604	123
Invested in capital assets, net of related debt	5,400	17,533	-	-
Restricted:				
Nonexpendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	67,882	(38,568)	10,408	1,811
Total net position	73,282	(21,035)	10,408	1,811
Total liabilities, deferred inflows and net position	$ 136,474	$ 60,272	$ 15,012	$ 1,934

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position				
Operating revenues:				
Grants and contracts	$ -	$ 11,874	$ 44,404	$ -
Sales and services of OSU Physicians	302,802	-	-	-
Other sales, services and rental income	986	963	463	7,256
Other operating	-	-	-	-
Total operating revenues	303,788	12,837	44,867	7,256
Operating expenses, excluding depreciation	285,446	11,028	42,210	4,242
Depreciation expense	4,178	1,601	431	-
Total operating expenses	289,624	12,629	42,641	4,242
Net operating income (loss)	14,164	208	2,226	3,014
Non-operating revenues and expenses:				
Gifts for current use	-	-	-	-
Net investment income (loss)	866	-	127	-
Interest expense	(764)	(2,505)	-	-
Other non-operating revenue (expense)	-	(27)	-	-
Net non-operating revenue (expense)	102	(2,532)	127	-
Capital contributions and additions to permanent endowments	-	-	-	-
Transfers from (to) the university	(6,455)	1,456	(2,222)	(2,640)
Change in net position	7,811	(868)	131	374
Beginning net position	65,471	(20,167)	10,277	1,437
Ending net position	$ 73,282	$ (21,035)	$ 10,408	$ 1,811
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 9,210	$ 1,700	$ 3,517	$ 2,999
Noncapital financing activities	566	15,241	(2,365)	(2,640)
Capital and related financing activities	(5,835)	(16,900)	(463)	(225)
Investing activities	(10,886)	-	127	(36)
Net increase (decrease) in cash	(6,945)	41	816	97
Beginning cash and cash equivalents	42,878	5,280	1,511	274
Ending cash and cash equivalents	$ 35,933	$ 5,321	$ 2,327	$ 371

Notes to Financial Statements | Years Ended June 30, 2013 and 2012 (dollars in thousands)

NOTE 21 – SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains, losses, assets and liabilities that can be identified. The university has one segment that meets the GASB reporting requirements.

The Office of Student Life operates student housing, dining and recreational sports facilities on the university's main and regional campuses. In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. Special Purpose Pledged Revenues include all revenues, fees, rentals, rates, charges, insurance proceeds and other moneys derived from the ownership or operation of these facilities. Special Purpose Pledged Revenues totaled $147,956 and $137,307 for the years ended June 30, 2013 and 2012, respectively.

Condensed financial information for the Special Purpose Revenue Facilities, before the elimination of certain intra-university transactions, as of and for the years ended June 30, 2013 and 2012 is as follows:

Segment Disclosure Information – Year Ended June 30, 2013

	2013	2012
Condensed Statement of Net Position		
Assets and deferred outflows:		
Current assets	$ 33,264	$ 26,345
Capital assets	419,281	354,653
Other assets	-	-
Amounts receivable from the university	-	-
Deferred outflows	-	-
Total assets and deferred inflows	$ 452,545	$ 380,999
Liabilities and deferred inflows:		
Current liabilities	$ 5,644	$ 5,166
Noncurrent liabilities	-	-
Amounts payable to the university	293,147	303,905
Deferred inflows	-	-
Total liabilities and deferred inflows	298,790	309,071
Net position:		
Invested in capital assets, net of related debt	126,135	50,748
Restricted:		
Nonexpendable	-	-
Expendable	-	-
Unrestricted	27,620	21,179
Total net position	153,754	71,928
Total liabilities, deferred inflows and net position	$ 452,545	$ 380,999
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Special-purpose pledged revenues - operating	$ 147,956	$ 137,307
Operating expenses, excluding depreciation	(116,060)	(110,852)
Depreciation expense	(16,375)	(11,387)
Operating income	15,521	15,068
Nonoperating revenues, net	(13,569)	(13,910)
Net income (loss) before transfers	1,952	1,158
Transfers from (to) other university units, net	79,874	96,009
Increase (decrease) in net assets	81,827	97,167
Beginning net position	71,928	(25,240)
Ending net position	$ 153,754	$ 71,928
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 29,370	$ 20,066
Noncapital financing activities	-	-
Capital and related financing activities	(21,409)	(13,211)
Investing activities	105	120
Net increase (decrease) in cash	8,066	6,976
Beginning cash and cash equivalents	23,695	16,719
Ending cash and cash equivalents	$ 31,762	$ 23,695

Supplementary Information on the Long-Term Investment Pool | Year Ended June 30, 2013

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 2013, the market value of the university's Long-Term Investment Pool—which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments—increased $783 million, to $3.15 billion at June 30, 2013. Changes in market value for 2013 are summarized below:

Net principal additions (withdrawals) for gifted endowments include new endowment gifts and reinvestment of unused endowment distributions. In 2013, the university invested the proceeds from the parking lease and concession agreement, totaling $483 million, in the Long Term Investment Pool. These funds have been internally designated to function as endowments and provide annual distributions to support faculty initiatives, student scholarships, campus transportation and sustainability, and the OSU Arts District. **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, 2013. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($53 million), University Development related expenses ($13 million) and other investment related expenses ($1 million).

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments– University	Gifted Endowments– Foundation	Quasi-Endowments– Operating	Quasi-Endowments– Designated	Total
Market Value at June 30, 2012	**$ 878,707**	**$ 500,824**	**$ 942,592**	**$ 43,910**	**$ 2,366,033**
Net Principal Additions (Withdrawals)	10,451	58,067	55,000	490,858	614,376
Change in Market Value	94,560	56,649	105,490	47,619	304,318
Income Earned	20,934	12,432	23,386	10,670	67,422
Distributions	(42,862)	(25,942)	(47,580)	(19,739)	(136,123)
Expenses	(20,758)	(12,328)	(23,190)	(10,581)	(66,857)
Market Value at June 30, 2013	**$ 941,032**	**$ 589,702**	**$ 1,055,698**	**$ 562,737**	**$ 3,149,169**

Investment Returns and Expenses

The investment return for the Long-Term Investment Pool was 11.6% for fiscal year 2013. The annualized investment returns for the three-year and five-year periods were 9.2% and 2.9%, 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 $53 million of investment management expenses, which reduced the pool by 2.2% in fiscal year 2013, the $13 million of University Development expenses and $1 million of other investment related expenses further reduced the pool by 0.6%.

Additional Information

Additional details on university endowments, including balances for individual funds, are available on the Office of the Controller's website at **http://controller.osu.edu/acc/endow-home.shtm**.

Acknowledgements

The 2013 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller.

Terek S. Ahmed
Jasmine N. Anderson
Suzanne M. Chizmar
Natalie H. Darner
Christopher Davis
Thomas F. Ewing
Scott D. Gill
R. Michael Gray
Robert L. Hupp, II
Charlotte K. Jessie
David P. Jones
Gary L. Leimbach
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Patricia M. Privette
Dawn M. Romie
Jon S. Rudolph
Julie L. Saunders
Don E. Seidelmann
Joshua R. Smith
Jan E. Soboslai
Timothy A. Thibodeau
Mary J. Wehner
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Photography: The Ohio State University Photo Services (unless otherwise noted)

Design: University Communications

Board of Trustees | 2012–2013

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