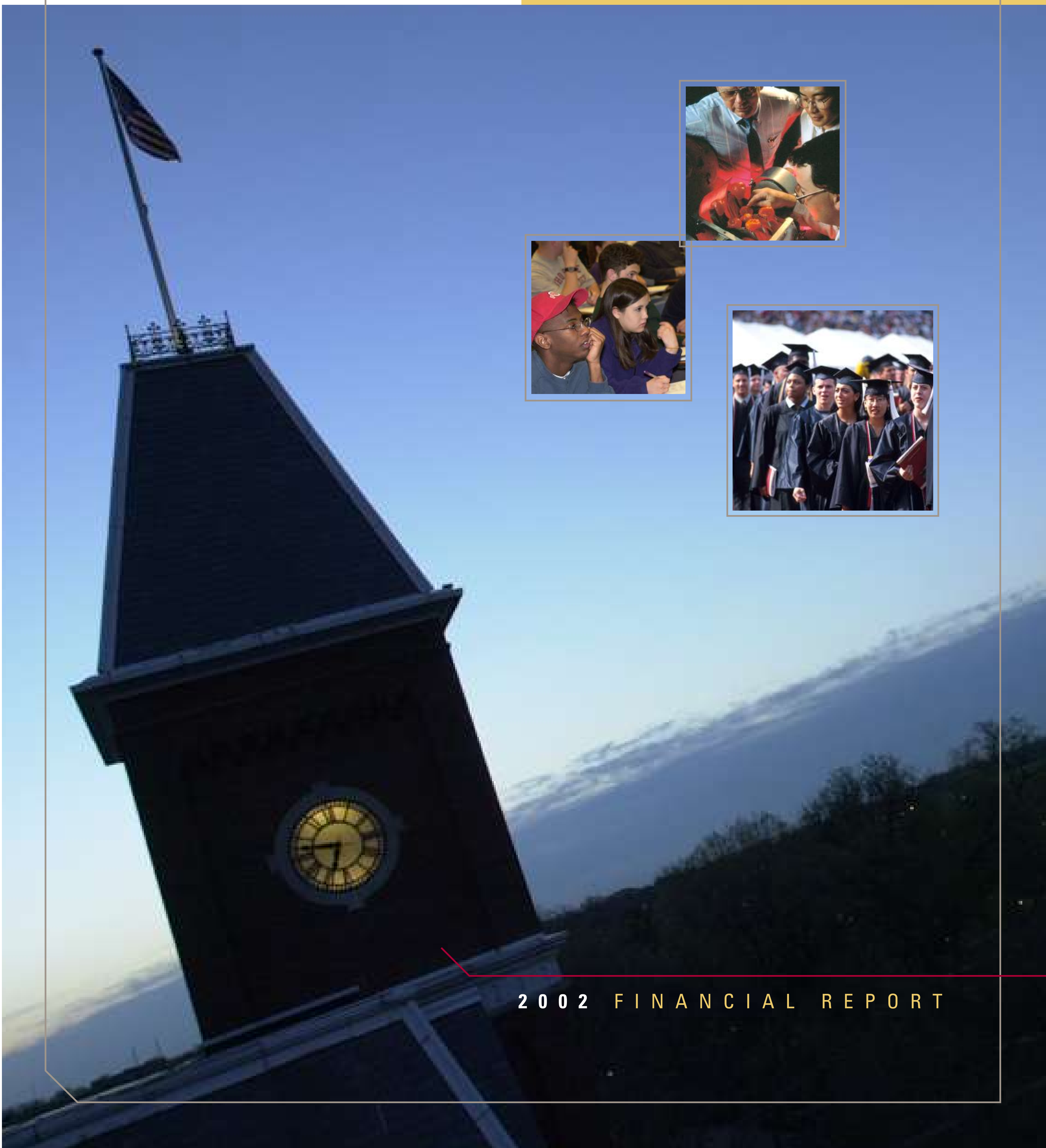
THE OHIO STATE UNIVERSITY



2002 FINANCIAL REPORT

Contents

Letter

We are pleased to present the consolidated financial report for The Ohio State University for the years ended June 30, 2002 and 2001.

Fiscal year 2002 marks the beginning of a new era for financial reporting at Ohio State. In coordination with the State of Ohio, the university has implemented a new financial reporting model, which replaces multi-column fund accounting statements provided in prior years with a single-column "business type activity" format. A new Management's Discussion and Analysis (MD&A) section, which precedes the financial statements, provides additional details on the various accounting changes in 2002, along with an objective, easily readable analysis of the university's financial activities. Although institutions were required to present only a single year of financial results in the year of implementation, Ohio State chose to restate its fiscal year 2001 results to facilitate comparisons between fiscal years. We hope this additional information and the new format help you to better understand the university's finances.

The accompanying financial reports indicate that The Ohio State University's financial health remains sound, despite flat or declining levels of state support and recent investment losses related to declines in the equity markets. Total expendable net assets (equity) increased $129 million, to $875 million at June 30, 2002. Total plant debt—in the form of commercial paper, bonds, notes, and capital lease obligations—increased $168 million, to $581 million at June 30, 2002. In addition, we are seeing positive trends in university enrollments and in freshman retention rates. Overall, the university is becoming less dependent on state support, is fostering a more entrepreneurial culture, and is redirecting resources to areas of greatest student demand and academic promise through a restructured budgeting process.

Fiscal year 2002 also saw a change in the university's leadership. On June 30, President William E. Kirwan left Ohio State to become the chancellor of the University of Maryland System. On October 1, 2002, he was succeeded by Karen A. Holbrook, who came to Ohio State from the University of Georgia. Edward H. Jennings, Ohio State's president from 1981 to 1990, provided interim leadership to the university during this period of transition. We look forward to working with Dr. Holbrook and the rest of the university community as we continue to move Ohio State towards a top-tier ranking among the nation's public institutions.

We encourage you to read the MD&A, the new statements, and the notes, and we welcome your interest in this great university. Go Bucks!

Very truly yours,

William J. Shkurti
Senior Vice President
for Business and Finance

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Independent Auditors' Report

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

We have audited the accompanying consolidated statements of net assets of The Ohio State University ("The University"), a component unit of the State of Ohio, as of June 30, 2002 and 2001, and the related consolidated statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Ohio State University as of June 30, 2002 and 2001, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the University has implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities;* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures* as of and for the year ended June 30, 2002.

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

In accordance with *Government Auditing Standards,* we have also issued our report dated November 12, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP
November 12, 2002

Deloitte
Touche
Tohmatsu

The Ohio State University

Management's Discussion and Analysis

for the Year Ended June 30, 2002

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University for the year ended June 30, 2002, with comparative information for the year ended June 30, 2001. 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 55,000 students, 4,700 faculty members, and 16,000 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 over 170 undergraduate majors, 110 masters degree programs, and 90 doctoral programs.

The university also operates one of the nation's leading academic medical centers, which includes the OSU Health System. The Health System is comprised of three hospitals—The Ohio State University Hospitals, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, and University Hospitals East—as well as an inpatient psychiatric care facility, a chemical dependency unit, rehabilitation facility, and 29 outpatient care centers with over 45,000 admissions and 627,000 patient visits annually.

Ohio State is governed by an 11-member Board of Trustees who are responsible for oversight of academic programs, budgets, and general administration, and employment of faculty and staff. The governor annually appoints one voting member to a nine-year term and one non-voting student member to a two-year term. The university's 19 colleges, the OSU Health System, and various academic support units operate largely on a decentralized basis. The Board approves annual budgets for university operations, but these budgets are managed at the college and department level.

The following financial statements reflect all assets, liabilities, and net assets (equity) of the university, the OSU Health System, the Ohio Agricultural Research and Development Center and the Ohio Supercomputer Center. In addition, these statements include consolidated financial results for a number of legally separate entities subject to Board control, including:

- The Ohio State University Research Foundation – which administers sponsored research grants and contracts for university
- The Ohio State University Foundation – a fundraising foundation operating exclusively for the benefit of the university
- Campus Partners for Community Urban Redevelopment – a non-profit organization participating in the redevelopment of neighborhoods adjacent to the main Columbus campus
- The Transportation Research Center – an automotive research and testing facility in East Liberty, Ohio
- OSU Managed Health Care Systems – a non-profit organization that administers university health care benefits

About the New Financial Statements

Fiscal year 2002 marks the beginning of a new era for financial reporting

at The Ohio State University. Along with the State of Ohio, the university has implemented a new governmental financial reporting model, which is set forth in Governmental Accounting Standards Board (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*. Under these new accounting standards, Ohio State is presenting its financial reports in a single-column "business type activity" format, a significant departure from the multi-column fund accounting statements provided in prior years. GASB Statement No. 35 defines business type activities as those financed in whole or in part by fees charged to external parties for goods and services. Most public colleges and universities have elected to use the business type activity format.

In addition to this MD&A section, the new financial report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Other Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements.

The **Statement of Net Assets** is the university's balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the university as of June 30, 2002, with comparative information as of June 30, 2001. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at market value. Capital assets, which include the university's land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net assets are grouped in the following categories:

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

The **Statement of Revenues, Expenses, and Other Changes in Net Assets** is the university's income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2002, with comparative information for fiscal year 2001. Tuition revenue is now shown net of scholarship allowances, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

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

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2002, with comparative information for fiscal year 2001. It breaks out the sources and uses of university cash into the following categories:

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

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

The **Notes to the Financial Statements**, which follow the financial statements, provide additional details on the numbers in the financial statements. In addition to several changes to the Summary of Significant Accounting and Reporting Policies, this year's report includes new notes on capital assets, long-term debt, receivable and payable balances, unrestricted net assets, and operating expenses by object.

Financial Highlights and Key Trends

The state budget situation presented significant financial challenges to the university in fiscal year 2002. In response to a slowing state economy, increased medical costs, and a state Supreme Court order to address inadequacies in state funding of primary and secondary education, the State of Ohio imposed a six percent mandatory reduction in all fiscal year 2002 state agency budgets, including colleges and universities. This translated into a $28 million reduction in state support to Ohio State and required the university to reduce and reallocate budgets in its colleges and academic support units.

Despite these difficulties, however, the university's overall financial health remains sound. Total unrestricted and restricted-expendable net assets increased $129 million, primarily due to the issuance of long-term bonds (which shifted the negative equity associated with construction activity from unrestricted net assets to capital assets, net of related plant debt), restrained growth in educational and general expenses, and improvements in OSU Health System operating results. Total university plant debt rose $168 million, to $581 million at June 30, 2002. Continuing declines in the equity markets resulted in a net investment loss of $112 million.

In addition, enrollment continues to be strong. Head count enrollment increased in fiscal year 2002 from 55,737 to 56,379. Particularly encouraging was an increase in freshman retention from 84 percent to 86 percent.

The following sections provide additional details on the university's financial position and activities for fiscal year 2002 and a look ahead at significant economic conditions that are expected to affect the university in the future.

I. Summary Statement of Net Assets
II. Summary of Revenues, Expenses, and Other Changes in Net Assets
III. University Cash Flows Summary

The state budget situation presented significant financial challenges to the university in fiscal year 2002 ... Despite these difficulties, however, the university's overall financial health remains sound.

I. Summary Statement of Net Assets

(in thousands)

	2002	2001
Cash and current investments	$759,536	$502,800
Current receivables, inventories and prepaid expenses	342,165	350,822
Total current assets	1,101,701	853,622
Restricted cash and cash equivalents	24,343	22,867
Noncurrent notes and pledges receivable	107,069	99,367
Endowments and other long-term investments	1,011,568	1,159,097
Capital assets, net of accumulated depreciation	1,762,814	1,698,010
Total noncurrent assets	2,905,794	2,979,341
Total assets	$4,007,495	$3,832,963
Accounts payable and accrued expenses	$260,501	$207,257
Deferred revenues and deposits	135,550	115,471
Commercial paper and current portion of bonds, notes and lease obligations	285,072	262,638
Other current liabilities	13,900	13,059
Total current liabilities	695,023	598,425
Noncurrent portion of bonds, notes and lease obligations	296,034	149,999
Other noncurrent liabilities	208,659	206,741
Total noncurrent liabilities	504,693	356,740
Total liabilities	$1,199,716	$955,165
Invested in capital assets, net of related debt	$1,181,708	$1,285,373
Restricted – nonexpendable net assets	751,317	846,939
Restricted – expendable net assets	457,521	495,021
Unrestricted net assets	417,233	250,465
Total net assets	$2,807,779	$2,877,798

I University **cash and current investment balances** increased $257 million, primarily due to the issuance of $228 million in new bonds and a $122 million reduction in capital spending in 2002. The Statement of Cash Flows, which is discussed in more detail below, provides additional details on sources and uses of university cash.

The market value of the university's **endowment and other long-term investments** decreased $148 million, to $1.01 billion at June 30, 2002, due to economic and financial market conditions, primarily in the equity markets, that negatively affected the returns of the Endowment Fund. The Endowment Fund operates with a long-term investment goal of preserving the purchasing power of the principal in a diversified portfolio.

Capital assets, which include the university's land, buildings, improvements, equipment, and library books, grew $65 million, to approximately $1.76 billion at June 30, 2002. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from five years (for computer equipment) to 100 years (for certain building components such as foundations).

During fiscal year 2002, the university completed several significant construction projects, including:

- *Jesse Owens Memorial Stadium* – an $11 million track & field and soccer facility and new home of the Jesse Owens track, which was relocated as part of the Ohio Stadium renovation
- *Veterinary Medicine Administration Building* – a $26 million facility that replaces sections of Sisson Hall built in 1957 and 1959; the new facility houses laboratories, classrooms, and offices for the College of Veterinary Medicine
- *The Blackwell Inn at Fisher College* (**A**) (executive residence) – a first-class hotel and banquet facility, which cost approximately $25 million, serving executives attending executive education programs at the Fisher College of Business (opened June 2002)

Major projects currently underway or in advanced planning stages include:

- *Knowlton School of Architecture* – construction is underway on a new $33 million home for the university's Architecture, City and Regional Planning, and Landscape Architecture programs, to be located adjacent to Tuttle Park Place, across from the Fisher College of Business.
- *Physical Sciences Research Building* (**B**) – construction is underway on a new $53 million home for the university's Department of Physics. The building will be on the site of the old Welding Engineering building, which was demolished in fiscal year 2002.
- *Stanley J. Aronoff Laboratory (Life Sciences Research Building)* – work is underway on a $27 million project to provide approximately 123,000 square feet of new laboratory and office space for the university's Zoology, Entomology, and Plant Biology departments. The new building will be located between the Botany and Zoology Building and the 12th Avenue Parking Garage.
- *Ross Heart Hospital* (**C**) – planning is underway to construct an $82 million heart hospital on the current site of the Rhodes Hall auditorium. This facility will include inpatient services, outpatient services, clinical and administrative support staff areas, and cardiac rehabilitation services.
- *Student housing* – various projects are underway to renovate or add new student housing space, both on Ohio State's main campus and on the regional campuses. Chief among these is a $29 million Graduate and Professional Student Housing complex, which is being constructed in stages in the South Campus area on Neil Avenue.
- *New recreation center* – planning is underway to replace Larkins Hall with a new 604,800-square-foot recreation center, to be constructed in two phases. The $140 million facility will house a 50

Bonds issued by the university during fiscal year 2002 were rated "Aa2" by Moody's Investors Service and "AA" by Standard and Poor's."

meter swimming pool and diving well; recreation, class, and lap pools; 16 basketball courts; six multipurpose rooms; squash and racquetball courts; and a 28,000-square-foot fitness center.

- *William Oxley Thompson Memorial Library* – planning is underway on a $99 million renovation of the university's main library, which will include an addition to the building, new landscaping of the surrounding area, and an expansion of the Library Book Depository.

The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $118 million at June 30, 2002.

Total university debt, in the form of **commercial paper, bonds, notes, and capital lease obligations**, increased $168 million, to $581 million at June 30, 2002. In January 2002, the university issued $77 million of variable-rate demand bonds and $151 million of fixed-rate bonds. Both issues are secured by the general receipts of the university. The university used these debt proceeds to retire commercial paper issued for interim financing of construction projects, to retire old bonds issued at higher rates, and to fund current capital expenditures. These bonds were rated "Aa2" by Moody's Investors Service and "AA" by Standard and Poor's. These ratings remained unchanged in fiscal year 2002.

The university's variable rate demand bonds mature at various dates through 2032. Governmental Accounting Standards Board Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities,* provides guidance on the balance sheet classification of these bonds. Under GASB Interpretation 1, outstanding principal balances on variable rate demand bonds may be classified as noncurrent liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. These obligations totaled $227 million and $164 million at June 30, 2002 and 2001, respectively.

Other university liabilities increased approximately $76 million in 2002. **Accounts payable and accrued expenses** increased $53 million, primarily due to minor timing differences in the remittance of payroll withholdings and employee benefit contributions (up $26 million compared with June 30, 2001); increases in payables to vendors for sales and services (up $14 million); and increases in current amounts due to third-party payors at the OSU Health System (up $7million). **Deferred revenues and deposits** increased $20 million, primarily due to increases in prepayments for tuition, student room and board, and tickets for athletic events.

As part of the GASB 34/35 implementation, the university has recognized two new liability categories in its Statement of

Net Assets. **Refundable advances for Federal Perkins loans** represent the accumulated federal capital contributions to the university's Perkins loan program. These amounts—which would be refundable to the federal government if the university were to terminate its participation in the program—were formerly reported as Loan Fund equity (net assets) in the university's financial reports. Refundable advances for Federal Perkins loans totaled approximately $35 million at June 30, 2002 and 2001.

The second new liability category arises from the State of Ohio's GASB 34/35 implementation. Under the state's workers' compensation program, Public Employer State Agencies, including state universities and university hospitals, pay workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Bureau of Workers' Compensation determines a rate for each governmental agency that will generate premium collections equal to the losses anticipated to be paid in the coming year. As part of the GASB 34/35 implementation, the State of Ohio has allocated the **unfunded workers' compensation liabilities** for Public Employer State Agencies to the individual agencies and instructed state-assisted colleges and universities to incorporate these allocated liabilities in their financial reports. Accordingly, the university's Statement of Net Assets reflects unfunded workers' compensation liabilities of $53 million and $57 million at June 30, 2002 and 2001, respectively.

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

(in thousands)

	2002	2001
Operating Revenues:		
Tuition and fees, net	$ 341,371	$ 313,716
Grants and contracts	425,012	417,004
Auxiliary enterprises sales and services, net	129,521	138,893
OSU Health System sales and services, net	711,753	604,322
Departmental sales and other operating revenues	85,619	81,577
Total operating revenues	1,693,276	1,555,512
Operating Expenses:		
Educational and general	1,286,403	1,252,480
Auxiliary enterprises	148,489	148,194
OSU Health System	701,310	612,062
Depreciation	147,775	152,795
Total operating expenses	2,283,977	2,165,531
Net operating income (loss)	(590,701)	(610,019)
Non-operating revenues (expenses):		
State share of instruction and line-item appropriations	446,115	467,907
Gifts – current use	69,123	129,203
Net investment income (loss)	(112,142)	(164,846)
Other non-operating revenues (expense)	13,898	382
Income (loss) before other revenues, expenses, gains or losses	(173,707)	(177,373)
State capital appropriations	50,342	47,331
Private capital gifts	20,917	29,870
Additions to permanent endowments	32,429	60,463
Increase (decrease) in net assets	(70,019)	(39,709)
Net assets – beginning of year	2,877,798	2,917,507
Net assets – end of year	$2,807,779	$2,877,798

II Net **tuition and fees** increased $28 million, to $341 million in fiscal year 2002. This nine percent increase is consistent with 2002 increases in tuition rates, which went up nine percent for in-state undergraduates.

Grant and contract revenues increased $8 million, to $425 million in fiscal year 2002, due to increases in federal grants and contracts. Federal research awards administered by The Ohio State University Research Foundation increased $14 million. The university also received increased funding from federal student aid programs, including Pell Grants (up $4 million) and the Federal Workstudy Program (up $2 million). These increases were partially offset by declines in state grants and contracts and private grants and contracts.

Fiscal year 2002 saw limited growth in total **educational and general expenses**. Total E&G expenses increased less than three percent, to $1.29 billion. Additional details are provided below.

Educational and General Expenses

(in thousands)

	2002	2001
Instruction and departmental research	$ 540,454	$ 521,503
Separately budgeted research	272,504	246,754
Public service	113,516	103,342
Academic support	83,990	85,834
Student services	58,097	57,105
Institutional support	102,531	116,927
Operation and maintenance of plant	77,927	84,346
Scholarships and fellowships	37,384	36,669
Total	$1,286,403	$1,252,480

Total **instructional and departmental research expenses** increased less than four percent in 2002, primarily due to the minimal salary increases (averaging less than one percent) provided to faculty and staff in response to the state budget reductions. Most of the increase relates to higher employee benefit charges and increases in restricted expenses in the Colleges of Medicine, Business, and Math & Physical Sciences. **Separately budgeted research expenses** increased $26 million, or 10 percent, reflecting the growth in federal sponsored research volume and increases in research fee authorizations provided to graduate assistants. **Institutional support** decreased $14 million, or 12 percent, primarily due to reductions in central charges for self-insured employee health plans (increased health benefit costs in 2002 were distributed to other E&G categories, auxiliaries, and the OSU Health System via increases in the composite benefit rates charged to university departments).

Current-use gifts to the university decreased $60 million, to $69 million in 2002, primarily due to the one-time recognition of $68 million in gift pledges receivable in 2001, as result of the adoption of GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*. Excluding the effects of this accounting change and similar 2002 accruals, actual receipts of current-use gifts increased $2 million.

Additions to permanent endowments decreased $28 million, to $32 million in 2002. A total of 168 new named endowments were established in 2002, including 16 new chairs or professorships, 80 new scholarship funds, and 74 new funds supporting programs throughout the university. The amount of private gifts to the endowment has averaged $38 million per year during the past five years (excluding a single $30.3 million gift in 2001). Gifts to the endowment are expected to continue in the $30–$40 million per year range.

Private capital gifts, which are restricted for the purchase or construction of capital assets, decreased $9 million, to $21 million in 2002. Major capital gift commitments in 2002 included $5.0 million pledge for the Thompson Library renovation, $4.5 million for the 4-H Center and $4.5 million for Newark Campus. Given the number of capital projects for which private gifts are being sought and projected given to existing projects, a steady state or slight increase in giving for these purposes is expected.

Revenues and expenses of the OSU Health System showed continued improvement. Health System sales and service revenues increased $107 million, or 18 percent, in 2002, primarily due to increased patient volumes across the Health System, as well as rate increases for certain services. Expenses (excluding depreciation, interest, and interfund transfers) increased $89 million due to higher patient volumes, increased utilization of contract nurses, increased cost of employee benefits, and general inflation.

Continuing declines in the equity markets resulted in a **net investment loss** of $112 million in 2002. Net depreciation in the fair market value of university investments totaling $157 million was partially offset by interest and dividends of $45 million.

III The university's Statement of Cash Flows reflects relatively stable cash flows for operating and noncapital financing activities. Total cash provided by these activities increased slightly, from $179 million in 2001 to $182 million in 2002. The overall increase in university cash balances in 2002 is primarily due to the issuance of new plant debt and reductions in capital expenditures.

III. University Cash Flows Summary

(in thousands)

	2002	2001
Net cash flows from operating activities	$(362,206)	$(414,076)
Net cash flows from noncapital financing activities	544,453	593,381
Capital appropriations and gifts for capital projects	67,175	78,341
Proceeds from issuance of bonds and notes payable	264,464	114,000
Payments for purchase and construction of capital assets	(163,249)	(284,786)
Principal and interest payments on capital debt	(129,757)	(113,492)
Net cash flows from investing activities	51,127	55,377
Net increase (decrease) in cash	$ 272,007	$ 28,745

Economic Factors That Will Affect the Future

The recent decreases in state support highlight two long-term trends:

- ***Ohio State is becoming less dependent on state support.*** Ten years ago, the university received $1.11 in state instructional subsidy for each $1 of tuition and fees charged to students. By 2002, that ratio had dropped to $0.85 for each $1 of tuition. This trend will accelerate in 2003, with the implementation of two-tiered tuition rates for new and continuing students. Undergraduate tuition—which increased

FY2003 Undergraduate Tuition at Ohio Public Universities

	New Students	Continuing Students
Miami University	$ 7,600	$ 7,600
University of Cincinnati	$ 6,936	$ 6,936
Bowling Green	$ 6,726	$ 6,486
Kent State	$ 6,374	$ 6,374
Ohio University	$ 6,336	$ 6,036
University of Akron	$ 6,098	$ 5,798
University of Toledo	$ 5,836	$ 5,836
Ohio State	**$ 5,664**	**$ 5,190**
Cleveland State	$ 5,496	$ 5,196
Wright State	$ 5,361	$ 5,163
Youngstown State	$ 4,996	$ 4,996
Shawnee State	$ 4,347	$ 4,050
Central State	$ 4,021	$ 4,021
State Average	**$ 5,830**	**$ 5,668**

nine percent for students on the Columbus campus in 2002—will increase nine percent for returning students and 19 percent for new students. Even with these increases, however, Ohio State's tuition rates remain below the average for Ohio's public universities (see chart to the left).

- ***The university is becoming more entrepreneurial.*** In recent years, the university has become more involved in partnerships with the community and with suppliers (e.g., Coca Cola and MBNA) and in new lines of business (e.g., the Blackwell and the Schottenstein Center). All of these opportunities advance the university's academic mission and diversify revenues, but they also require the university to take on and manage risk in ways it has not done before. Successfully managing this risk will be critical to the university's continued success.

The focal point for the university's budgeting and spending priorities is the Academic Plan, which was adopted in 2000. The Academic Plan is a reflection of the university's aspirations to become one of the nation's top 10 public research universities during the next 10 years. It focuses on six core strategies:

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

In order to better support the Academic Plan, the university has adopted a new budget system that promotes innovation and disciplined management of the use of its resources. The fundamental characteristics of this system are to:

- Replace historically-based funding with funding based on performance in relationship to the Academic Plan
- Decentralize more decisions regarding both revenues and expenses to the college level
- Make the flow of both revenues and expenses more transparent

The new budgeting system represents the culmination of a five-year planning effort. While it is not a panacea, the university believes it will allow university management to more closely align resources with academic goals.

Current levels of funding do not allow for a full implementation of the Academic Plan. Recognizing these constraints, the university's leadership has focused its efforts on the following four key priorities:

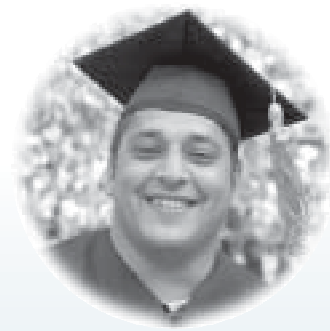
- ***Retain and attract outstanding faculty and staff by bringing salaries up to the level of the university's benchmark peers.*** In 2003, tuition increases, growth in non-state revenue sources, and an aggressive reallocation of existing funds—including the elimination of 586 positions—will allow the university to provide merit-based pay raises for faculty and staff averaging 4.5 percent, which is one percent above the estimated increase in the external market. The university's compensation plan calls for above-market increases for each of the next several years to make up for slippage in recent years.

- ***Strengthen significantly the quality of the academic experience for undergraduates.*** New initiatives in this area have provided funding for smaller classes; more openings in high-demand courses; expanded academic and career advising services; improved classroom teaching and development programs for faculty and graduate associates; and expanded living/learning options for student housing. In addition, the university's budget restructuring process will direct future increases in general funds budgets to those disciplines and programs with the greatest student demand.
- ***Establish Ohio State as a leader in biomedical research.*** The university plans to build a 422,000 square-foot Biomedical Research Tower. This ten-story tower, which is projected to open in late 2006, will nearly double the space devoted to biomedical research at the university. The $120 million facility will be financed largely with bonds, to be repaid from facilities and administrative cost recoveries on research grants and other sources generated by the College of Medicine and Public Health.
- ***Create a state and national resource for understanding and resolving issues of race and ethnicity that continue to divide the nation.*** Ohio State has founded the William E. Kirwan Institute for the Study of Race and Ethnicity in the Americas. Named after the university's outgoing president, who left Ohio State July 1 to become chancellor of the University of Maryland System, the institute will receive over $1 million in annual institutional funding and is expected to stimulate considerable new grant activity.

The OSU Health System is expecting to continue its growth during fiscal year 2003. This growth includes an increase of 4,000 admissions. Also, the number of outpatient and clinic visits is expected to increase by 40,000 or 5.2 percent. The operating revenues and expenses are expected to increase by over $100 million respectively during 2003 as a result of these increased activities. The Health System continues to implement management initiatives aimed at better utilization of its human and capital resources to improve patient care and financial viability.

The OSU Health System as part of the Medical Center is supporting the development of research resulting in leading edge clinical services while fulfilling its teaching mission. These efforts are particularly focused on Cardiology and Oncology Services during 2003. The Health System is currently building a Heart Hospital, which will open during 2004, while extending services into communities throughout Ohio. It continues to expand its oncology services throughout the Columbus metropolitan area and state, with the expectation that the James Cancer Hospital has become the provider of choice. The Medical Center will continue to develop services that support its pursuit of becoming a leading research, educational, and patient care provider in the United States.

Despite the resource challenges faced by the university over the past year, university management believes that Ohio State will maintain its sound financial position and is positioned to continue its progress towards a top-tier ranking among the nation's public institutions.



The focal point for the university's budgeting and spending priorities is the Academic Plan, which was adopted in 2000.

THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENT OF NET ASSETS

June 30, 2002 and 2001
(in thousands)

	2002	2001
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 324,034	$ 53,503
Temporary investments	435,502	449,297
Accounts receivable, net	251,354	252,207
Notes receivable – current portion, net	11,500	11,900
Pledges receivable – current portion, net	10,757	17,025
Accrued interest receivable	14,025	12,890
Inventories and prepaid expenses	54,529	56,800
Total Current Assets	1,101,701	853,622
Noncurrent Assets:		
Restricted cash and cash equivalents	24,343	22,867
Notes receivable, net	50,809	51,696
Pledges receivable, net	56,260	47,671
Endowment investments	967,972	1,119,889
Other long-term investments	43,596	39,208
Capital assets, net	1,762,814	1,698,010
Total Noncurrent Assets	2,905,794	2,979,341
Total Assets	**$4,007,495**	**$3,832,963**
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	$260,501	$207,257
Deposits and deferred revenues	135,550	115,471
Commercial paper and current portion of bonds, notes and leases payable	285,072	262,638
Compensated absences – current portion	4,976	4,498
Obligations under annuity and life income agreements – current portion	5,281	5,075
State allocation of unfunded workers' compensation liability – current portion	3,643	3,486
Total Current Liabilities	695,023	598,425
Noncurrent Liabilities:		
Bonds, notes and leases payable	296,034	149,999
Compensated absences	56,351	50,941
Obligations under annuity and life income agreements	39,405	39,303
Refundable advances for Federal Perkins loans	35,337	34,763
State allocation of unfunded workers' compensation liability	49,846	53,689
Other noncurrent liabilities	27,720	28,045
Total Noncurrent Liabilities	504,693	356,740
Total Liabilities	**1,199,716**	**955,165**
Net Assets:		
Invested in capital assets, net of related debt	1,181,708	1,285,373
Restricted:		
Nonexpendable	751,317	846,939
Expendable	457,521	495,021
Unrestricted	417,233	250,465
Total Net Assets	**2,807,779**	**2,877,798**
Total Liabilities and Net Assets	**$4,007,495**	**$3,832,963**

THE OHIO STATE UNIVERSITY

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

Years Ended June 30, 2002 and 2001
(in thousands)

	2002	2001
Operating Revenues:		
Student tuition and fees		
(net of scholarship allowances of $66,761 and $56,888, respectively)	$ 341,371	$ 313,716
Federal grants and contracts	234,066	208,995
State grants and contracts	35,726	44,484
Local grants and contracts	21,260	21,385
Private grants and contracts	133,960	142,140
Sales and services of educational departments	58,187	67,357
Sales and services of auxiliary enterprises		
(net of scholarship allowances of $8,916 and $7,526, respectively)	129,521	138,893
Sales and services of the OSU Health System		
(net of charity care of $18,906 and $14,693, respectively)	711,753	604,322
Other operating revenues	27,432	14,220
Total Operating Revenues	1,693,276	1,555,512
Operating Expenses:		
Educational and General:		
Instructional and department research	540,454	521,503
Separately budgeted research	272,504	246,754
Public service	113,516	103,342
Academic support	83,990	85,834
Student services	58,097	57,105
Institutional support	102,531	116,927
Operation and maintenance of plant	77,927	84,346
Scholarships and fellowships	37,384	36,669
Auxiliary enterprises	148,489	148,194
OSU Health System	701,310	612,062
Depreciation	147,775	152,795
Total Operating Expenses	2,283,977	2,165,531
Operating Income (Loss)	(590,701)	(610,019)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	446,115	467,907
Gifts	69,123	129,203
Net investment income (loss)	(112,142)	(164,846)
Interest expense on plant debt	(15,821)	(18,081)
Other non-operating revenues (expenses)	29,719	18,463
Net Non-operating Revenue (Expense)	416,994	432,646
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(173,707)	(177,373)
State capital appropriations	50,342	47,331
Private capital gifts	20,917	29,870
Additions to permanent endowments	32,429	60,463
Increase (Decrease) in Net Assets	(70,019)	(39,709)
Net Assets – Beginning of Year	2,877,798	2,917,507
Net Assets – End of Year	$2,807,779	$2,877,798

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30, 2002 and 2001
(in thousands)

	2002	2001
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 265,673	$ 256,096
Grant and contract receipts	423,675	412,879
Receipts for sales and services	912,635	837,180
Payments to or on behalf of employees	(1,045,231)	(998,254)
University employee benefit payments	(233,981)	(181,176)
Payments to vendors for supplies and services	(694,024)	(726,276)
Payments to students and fellows	(33,858)	(33,169)
Student loans issued	(11,313)	(6,395)
Student loans collected	13,633	10,783
Student loan interest and fees collected	2,013	2,143
Other receipts (payments)	38,572	12,113
Net cash provided (used) by operating activities	(362,206)	(414,076)
Cash Flows from Noncapital Financing Activities:		
State share of instruction and line-item appropriations	446,115	467,907
Gift receipts for current use	66,801	64,508
Additions to permanent endowments	32,429	60,463
Drawdowns of federal direct loan proceeds	194,960	171,439
Disbursements of federal direct loans to students	(196,636)	(171,375)
Disbursements of loan proceeds to related organization	(84)	(5,000)
Repayment of loans to related organization	0	721
Amounts received for annuity and life income funds	5,383	8,644
Amounts paid to annuitants and life beneficiaries	(5,075)	(4,149)
Agency funds receipts	5,058	5,290
Agency funds disbursements	(4,498)	(5,067)
Net cash provided (used) by noncapital financing activities	544,453	593,381
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	264,464	114,000
State capital appropriations	46,258	48,471
Gift receipts for capital projects	20,917	29,870
Payments for purchase or construction of capital assets	(163,249)	(284,786)
Principal payments on capital debt and leases	(113,961)	(94,961)
Interest payments on capital debt and leases	(15,796)	(18,531)
Net cash provided (used) by capital financing activities	$ 38,633	$ (205,937)

	2002	2001
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	6,900	89,142
Proceeds from sales and maturities of long-term investments	840,295	624,146
Investment income (net of related fees)	50,218	53,366
Purchases of long-term investments	(846,286)	(711,277)
Net cash provided (used) by investing activities	51,127	55,377
Net Increase in Cash	**272,007**	**28,745**
Cash and Cash Equivalents – Beginning of Year	76,370	47,625
Cash and Cash Equivalents – End of Year	$ 348,377	$ 76,370
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	$(590,701)	$(610,019)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:		
Depreciation expense	147,775	152,795
Changes in assets and liabilities:		
Accounts receivable, net	5,735	17,788
Notes receivable, net	1,372	4,388
Accrued interest receivable	(412)	(305)
Inventories and prepaid expenses	2,271	(6,476)
Accounts payable and accrued liabilities	51,585	26,046
Deposits and deferred credits	17,715	3,810
Compensated absences	5,888	6,821
Refundable advances for federal Perkins loans	574	199
State allocation of unfunded workers' compensation liability	(3,686)	(7,545)
Other noncurrent liabilities	(322)	(1,578)
Net cash provided (used) by operating activities	$(362,206)	$(414,076)
Non Cash Transactions:		
Equipment	$ 17,966	$ 2,772
Capital lease	(17,966)	(2,772)

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

All dollar figures stated in these Notes are in thousands.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

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

The university is governed by an 11-member 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. Nine trustees are appointed for staggered nine-year terms by the governor, with the advice and consent of the state Senate. In addition, two non-voting student members are appointed to the Board of Trustees for staggered two-year terms.

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

Basis of Presentation

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

- The Ohio State University and its hospitals and clinics
- The Ohio State University Foundation, a not-for-profit organization operating exclusively for the benefit of The Ohio State University
- Two separate statutory entities for which the university has special responsibility
  - Ohio Agricultural Research and Development Center
  - Ohio Supercomputer Center
- Eight legally independent corporations engaged in activities related to the university
  - The Ohio State University Research Foundation
  - The Ohio State University Student Loan Foundation, Inc.
  - Transportation Research Center of Ohio, Inc.
  - Campus Partners for Community Urban Redevelopment, Inc.
  - University Affiliates, Inc.
  - Reading Recovery and Early Literacy, Inc.
  - Ohio State University Retirees Association
  - OSU Managed Health Care Systems, Inc.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the university consolidates affiliated organizations controlled by the university's Board of Trustees. The accounts of organizations not controlled by the university, including athletics booster groups and the Ohio State University Alumni Association, are not included in these financial statements.

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.

For financial management purposes, the university classifies financial resources into funds that reflect the specific activities, objectives, or restrictions of the resources. Funds that have similar characteristics are combined into the following fund groups:

- **Current Funds** include those resources that are available for current operations. These funds can be either restricted or unrestricted and are used for educational and general purposes, auxiliary enterprises, or the OSU Health System.
- **Loan Funds** include resources available for loans to students and consist primarily of federal Perkins loans.
- **Endowment and Similar Funds** include both endowment funds, whose principal is not expendable per the donor's or external agency's instructions, and quasi-endowment funds, which are designated by the university to be retained and invested.
- **Annuity and Life Income Funds** include resources acquired by the university with provisions to pay periodic income to income beneficiaries over their lifetimes.
- **Plant Funds** include resources set aside for the construction, renewal, and replacement of property, plant, and equipment. The university's plant assets, long-term debt, and resources set aside for debt retirement are also included in this fund group.
- **Agency Funds** include resources held by the university on behalf of others in the capacity of custodian or fiscal agent.

Effective July 1, 2001, the university adopted GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as a component of the State of Ohio, 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*. Also effective July 1, 2001, the university adopted two related GASB Statements: GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

These statements establish comprehensive new financial reporting requirements for governmental colleges and universities throughout the United States. The accompanying financial statements have been prepared on the accrual basis. The university reports as a Business Type Activity, as defined by GASB Statement No. 35 and as such, the concept of external reporting of fund statements is eliminated and replaced by single column university wide financial statements. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods and services. GASB Statement No. 35 requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

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

- **Restricted – nonexpendable:** Net assets subject to externally-imposed stipulations that they be maintained in perpetuity by the university. These assets primarily consist of the university's permanent endowment funds.
- **Restricted – expendable:** Net assets whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time. These resources include the current restricted funds, student loan funds, certain plant funds, annuity and life income funds, and restricted funds internally designated to function as endowments (restricted quasi-endowments).
- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. These resources include educational and general funds, auxiliary funds, hospitals funds, certain plant funds, and unrestricted quasi-endowments. Substantially all unrestricted net assets are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment.

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

The provisions of GASB Statements No. 34, 35, 37, and 38 have been applied to the years presented. Accruals for summer quarter tuition revenues; reclassification of federal contributions to Perkins loan programs from net assets to noncurrent liabilities; the State of Ohio's allocation of unfunded workers' compensation liabilities to state assisted colleges and universities; and the implementation of depreciation for capital assets resulted in the restatement of total net assets as of June 30, 2001 and 2000, respectively. The following table reconciles total fund balances, as previously reported, to the restated amounts reported in these financial statements.

	2001	2000
Total fund balances, as previously reported	$ 4,365,082	$ 4,282,431
Add: Accrual of summer tuition (net)	1,992	1,121
Less: Federal contributions for Perkins loans	(34,763)	(34,564)
Less: Unfunded workers' compensation liabilities	(57,175)	(64,720)
Less: Accumulated depreciation and other items	(1,397,338)	(1,266,761)
Total fund balances, restated as net assets	$ 2,877,798	$ 2,917,507

Cash and Investments

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts. Restricted cash and cash equivalents at June 30, 2002 and 2001 consist of cash and cash equivalents restricted for endowments and annuity/life income funds.

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 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.

Investment in real estate is carried at cost, if purchased, or appraised value at the date of the gift. The carrying and market values of real estate at June 30, 2002 are $41,413 and $59,059, respectively.

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

Endowment Policy

The university Endowment Fund consists of more than 3,000 named funds. Each named fund is assigned a number of shares in the university Endowment Fund based on the value of the gifts to that named fund. The university's policy is to distribute annually to each named fund income equal to five percent of the average market value per share of the endowment during the past three years.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Ohio, permits the university's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems prudent. Net realized and unrealized endowment appreciation, after the spending rule distributions, is retained with the endowment.

Endowment income is distributed to named endowment funds using the share method of accounting for pooled investments. Based on this method, undistributed gains from prior years were transferred from the Endowment Fund to current restricted funds. These transfers totaled $52,167 and $43,861 in fiscal years 2002 and 2001, respectively.

Gift Pledges Receivable

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

Inventories

The university's inventories, which consist principally of the bookstores, central food stores, and general stores, are valued at the lower of moving average cost or market. The inventories of the hospitals, which consist principally of pharmaceuticals and operating supplies, are valued at cost on a first-in, first-out basis.

Capital Assets and Collections

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

TYPE OF ASSET	ESTIMATED USEFUL LIFE
Improvements other than buildings	20 years
Buildings	10 to 100 years
Moveable equipment and furniture	5 to 15 years
Library books	10 years

The university does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred Revenues

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

Operating and Non-Operating Revenues

The university defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses, and Other Changes in Net Assets, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness, substantially all university expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, current-use gifts, and investment income.

Tuition, Room, and Board

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

State Support

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

The state also provides line-item appropriations which partially support the current operations of various activities, which include clinical teaching expenditures incurred at The

Ohio State University Hospitals and other health sciences teaching facilities, The Ohio State University Extension, the Ohio Agricultural Research and Development Center, and the Center for Labor Research.

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

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

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

Government Grants and Contracts

Government grants and contracts normally provide for the recovery of direct and indirect costs and are subject to audit by the appropriate government agency. Federal funds are subject to an annual OMB Circular A-133 audit. Grants and contracts determined to be exchange transactions are recognized as revenue when the exchange occurs. Grants and contracts determined to be nonexchange transactions are recognized as revenue when all eligibility requirements have been met. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.

Hospital Revenue

Revenue received under third-party cost reimbursement agreements (primarily the federal Medicare and Medicaid programs) are subject to examination and retroactive adjustments by the agencies administering the programs. In the normal course of business, the hospitals contest certain issues resulting from examination of prior years' reimbursement reports. The accompanying financial statements include provisions for estimated retroactive adjustments arising from such examinations and contested issues. The hospitals recognize settlements of protested adjustments or appeals upon resolution of the matters.

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 May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to a primary government. This Statement will be effective for the university's fiscal year 2004. University management has not yet determined the impact that implementation of GASB No. 39 will have on the university's financial statements.

Other

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

Certain reclassifications have been made to the 2001 comparative information to conform with the 2002 presentation.

NOTE 2 — CASH AND INVESTMENTS

At June 30, 2002, the carrying amount of the university's cash and cash equivalents for all funds is $348,377 as compared to bank balances of $412,275. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $2,116 is covered by federal deposit insurance and $410,159 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

The university's investment policy authorizes the university to invest non-endowment funds in the following investments:

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

The university's investment policy authorizes the university to invest endowment funds in the following investments:

- Obligations of the U.S. Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit (domestic and eurodollar)
- Repurchase agreements
- Mutual funds
- Commercial paper
- Banker's acceptances
- Corporate bonds and notes
- Common and preferred stock
- Real estate
- Guaranteed investment contracts
- Collateralized mortgage obligations
- Asset-backed securities
- Private equity and venture capital

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end. These categories of risk are summarized below.

Category 1 Insured or registered investments held by the university or its agent in the name of the university.

Category 2 Uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the university.

Category 3 Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the university's name.

The values of investments at June 30, 2002 and 2001 are as follows:

	2002	2001
U.S. government securities	$ 469,304	$ 496,394
Common stocks	735,026	874,071
Corporate bonds	49,823	45,121
Real estate	41,413	36,333
Other	151,504	156,475
Total investments	$ 1,447,070	$ 1,608,394

The U.S. government 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 (Category 2). Common stocks, corporate bonds, money market instruments, mutual funds, and other investments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at the Depository Trust Company, Bank One, or State Street in "book entry" form. The banks internally designate the securities as owned by or pledged to the university (Category 2).

The bulk of the university's investment assets are accounted for on a pooled basis. The following chart summarizes total pooled and non-pooled amounts at June 30, 2002 and 2001, respectively:

	Pooled	Non-pooled	Total
Temporary investments	$ 396,391	$ 39,111	$ 435,502
Endowment investments	939,708	28,264	967,972
Other long-term investments	32,070	11,526	43,596
Total 2002	$ 1,368,169	$ 78,901	$1,447,070
Total 2001	$ 1,527,857	$ 80,537	$1,608,394

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2002, the university realized a net loss of $63,801 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net depreciation in the fair value of investments during the year ended June 30, 2002, was $157,338. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized depreciation during the year on investments was $93,537.

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

	Interest and Dividends (net)	Net Appreciation (Depreciation) in Market Value of Investments	Net Investment Income (Loss)
Temporary investments	$ 46,393	$ (5,862)	$ 40,531
Endowment investments	1,998	(150,943)	(148,945)
Other long-term investments	(3,195)	(533)	(3,728)
Total 2002	$ 45,196	$ (157,338)	$ (112,142)
Total 2001	$ 57,878	$ (222,724)	$ (164,846)

NOTE 3 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2002 and 2001 consist of the following:

	2002	2001
Patient receivables – OSU Health System	$ 235,506	$ 218,951
Grant and contract receivables	65,644	61,796
Tuition and fees receivable	31,179	36,018
Receivables for departmental and auxiliary sales and services	11,862	14,718
State and federal receivables	12,072	9,383
Other receivables	2,663	8,139
	358,926	349,005
Less: Allowances for doubtful accounts	107,572	96,798
	$ 251,354	$ 252,207

Notes receivable at June 30, 2002 consist primarily of Perkins loans and are net of an allowance for doubtful accounts of $8,905. Federal capital contributions to the Perkins loan programs represent advances which are ultimately refundable to the federal government.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Reporting for Nonexchange Transactions,* the university has recorded $70,909 in non-endowment pledges receivable at June 30, 2002 and a related allowance for doubtful accounts of $3,892.

NOTE 4 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 37,891	$ -	$ 237	$ 37,654
Improvements other than buildings	170,020	14,797	4,526	180,291
Buildings and fixed equipment	1,910,113	179,696	4,702	2,085,107
Movable equipment and furniture	681,674	79,076	80,575	680,175
Library books	151,281	9,097	615	159,763
Construction in progress	153,915	(45,238)	4,368	104,309
	3,104,894	237,428	95,023	3,247,299
Less: Accumulated depreciation	1,406,884	147,775	70,174	1,484,485
Capital assets, net	$ 1,698,010	$ 89,653	$ 24,849	$ 1,762,814

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

NOTE 5 — ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND SELF-INSURANCE

Accounts payable and accrued expenses at June 30, 2002 and 2001 consist of the following:

	2002	2001
Payables to vendors for supplies and services	$ 88,101	$ 73,624
Accrued compensation and benefits	57,524	51,365
Retirement system contributions payable	49,117	31,250
Self-insurance accruals:		
Medical malpractice	22,859	19,902
Employee health insurance	17,167	20,822
Current portion of amounts due to third-party payers – OSU Health System	15,185	8,115
Other accrued expenses	10,548	2,179
	$260,501	$207,257

Self-Insurance Programs

The hospitals have established a trusteed self-insurance fund for professional liability claims. The estimated liability and the related contributions to the fund are based upon an independent actuarial determination as of June 30, 2002.

The hospitals' estimate of professional malpractice liability includes provisions for known claims and actuarially determined estimates of incurred but not reported claims and incidents. This liability at June 30, 2002, of the anticipated future payments on gross claims is estimated at its present value of $22,859 discounted at an estimated rate of six percent.

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $23,255 are in excess of the recorded liability at June 30, 2002, and the excess of $1,547 is included in the hospitals' fund equity.

The university is self-insured for employee health benefits. It is also self-insured, with a stop-loss ceiling of $4,303, for employee life, accidental death, and dismemberment benefits. As of June 30, 2002, $17,167 is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Changes in the reported liabilities since June 30, 2000 result from the following activities:

	Malpractice		Health and Life	
	2002	2001	2002	2001
Liability at beginning of fiscal year	$19,902	$14,193	$20,822	$ 8,573
Current year claims, changes in estimates	3,565	7,992	84,894	85,603
Claim payments	(608)	(2,283)	(88,549)	(73,354)
Balance at fiscal year end	$22,859	$19,902	$17,167	$20,822

NOTE 6 — DEBT

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

Debt activity for the year ended June 30, 2002 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series C	$ 81,000		$ 81,000	$ -	
Series D	-	$ 37,000		37,000	$ 37,000
Notes:					
Ohio Board of Regents Note,					
due through 2006	1,063		213	850	213
Capital One Funding Corporation,					
due through 2014	2,882		148	2,734	159
General Receipts Bonds – Fixed Rate:					
1992A1, due serially through 2012	35,175		2,745	32,430	2,895
1992A2, due serially through 2009	30,390		7,690	22,700	3,070
1999A, due serially through 2029	80,900		2,800	78,100	2,910
2002A, due serially through 2031	-	150,515		150,515	5,440
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	63,240		6,000	57,240	57,240
1999B1, due serially through 2029	78,700		4,700	74,000	74,000
1999B2, due 2006	21,800		3,000	18,800	18,800
2001, due serially through 2032	-	76,950		76,950	76,950
Capital Lease Obligations	17,487	17,965	5,665	29,787	6,395
	$412,637	$282,430	$113,961	$581,106	$285,072

Debt obligations are generally callable by the university, bear interest at fixed and variable rates ranging from zero percent to six percent and mature at various dates through 2032. Maturities and interest on debt obligations for the next five years and in five-year periods are as follows:

	Commercial Paper, Bonds and Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2003	$ 278,676	$ 16,584	$ 6,396	$ 1,207
2004	15,253	13,342	5,363	933
2005	16,030	12,644	4,611	724
2006	15,068	11,947	4,264	534
2007	15,585	11,260	3,086	365
2008–2012	76,811	45,082	2,732	1,117
2013–2017	42,886	29,758	2,710	513
2018–2022	36,545	19,351	625	16
2023–2027	26,325	11,152	-	-
2028–2032	28,140	3,382	-	-
	$ 551,319	$ 174,502	$ 29,787	$ 5,409

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 $39,596 for future debt service which is included in unrestricted net assets.

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

	Amount Defeased	Amount Outstanding at June 30, 2002
Revenue Bonds:		
Series I	$5,951	$2,175

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

Variable Rate Demand Bonds

Series 1997, 1999B1, 1999B2, and 2001 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, 2002 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	3.001%
1999 B1	12%	2.836%
1999 B2	12%	3.051%
2001	12%	1.334%

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 2032. Governmental Accounting Standards Board (GASB) Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities,* provides guidance on the balance sheet classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as 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 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 $226,990 and $163,740 at June 30, 2002 and 2001, respectively.

Commercial Paper

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

Capital Lease Obligations

Computer equipment and the facilities for child care, stores/receiving, and ATI residence hall are financed as capital leases. The original cost and lease obligations related to these capital leases as of June 30, 2002 are $42,528 and $29,787, respectively. The original cost and lease obligations related to capital leases as of June 30, 2001 are $28,807 and $17,487, respectively.

NOTE 7 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the balance sheet. The total rental expense under these agreements was $14,964 and $11,645 for the years ended June 30, 2002 and 2001, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2002 are as follows:

Year Ending June 30,	
2003	$ 12,205
2004	9,105
2005	4,644
2006	2,787
2007	2,150
2008–2012	5,691
2013–2017	1,788
2018–2022	985
Total minimum lease payments	$ 39,355

NOTE 8 — 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 Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences.* Under the termination method, the university calculates a ratio, Sick Leave Termination Cost Per Year Worked, that is based on the university's actual historical experience of sick leave payouts to terminated employees. This ratio is then applied to the total years-of-service for current employees.

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

NOTE 9 — NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2002 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 55,439	$ 10,386	$ 4,498	$ 61,327
Obligations under annuity and life income agreements	44,378	5,383	5,075	44,686
Refundable advances for Federal Perkins loans	34,763	574	-	35,337
State allocation of unfunded workers' compensation liability	57,175	-	3,686	53,489
Other noncurrent liabilities	28,045	1,675	2,000	27,720
		$ 18,018	$ 15,259	
Less: Current portion	13,059			13,900
	$ 206,741			$ 208,659

Other noncurrent liabilities at June 30, 2002 and 2001 consist of the following:

	2002	2001
Amounts due to third-party payers – OSU Health System	$ 17,720	$ 16,045
Advance payments under exclusivity agreements	10,000	12,000
	$ 27,720	$ 28,045

NOTE 10 — UNRESTRICTED AND RESTRICTED-EXPENDABLE NET ASSETS

Substantially all unrestricted net assets are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment. Major components of unrestricted net assets at June 30, 2002 and 2001 are as follows:

	2002	2001
Educational and general	$ 183,727	$ 150,229
Auxiliary enterprises	(3,897)	(4,413)
OSU Health System	111,824	93,035
Loan funds	2,643	2,420
Unrestricted quasi-endowments	53,374	71,808
Plant	69,562	(62,614)
	$ 417,233	$ 250,465

Restricted expendable net assets are subject to various purpose or time-based restrictions set forth by donors or granting agencies. Major components of restricted-expendable net assets at June 30, 2002 and 2001 are as follows:

	2002	2001
Current operations	$ 276,908	$ 277,324
Loan funds	32,332	31,632
Restricted quasi-endowments	141,631	183,499
Plant	6,650	2,566
	$ 457,521	$ 495,021

NOTE 11 -— OPERATING EXPENSES BY OBJECT

In accordance with requirements set forth by the Ohio Board of Regents, the university reports operating expenses by functional classification on the Statement of Revenues, Expenses, and Other Changes in Net Assets. Operating expenses by object for the years ended June 30, 2002 and 2001 are summarized as follows:

Year Ended June 30, 2002	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 466,562	$ 73,892	$	$	$ 540,454
Separately budgeted research	193,657	78,847			272,504
Public service	81,351	32,165			113,516
Academic support	75,194	8,796			83,990
Student services	40,242	17,855			58,097
Institutional support	100,340	2,191			102,531
Operation and maintenance of plant	29,898	48,029			77,927
Scholarships and fellowships	2,696	830	33,858		37,384
Auxiliary enterprises	63,052	85,437			148,489
OSU Health System	336,571	364,739			701,310
Depreciation				147,775	147,775
Total operating expenses	$1,389,563	$712,781	$33,858	$147,775	$2,283,977

Year Ended June 30, 2001	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 436,081	$ 85,422	$	$	$ 521,503
Separately budgeted research	148,020	98,734			246,754
Public service	74,019	29,323			103,342
Academic support	81,280	4,554			85,834
Student services	39,342	17,763			57,105
Institutional support	85,511	31,416			116,927
Operation and maintenance of plant	36,904	47,442			84,346
Scholarships and fellowships	2,495	1,005	33,169		36,669
Auxiliary enterprises	59,881	88,313			148,194
OSU Health System	284,693	327,369			612,062
Depreciation				152,795	152,795
Total operating expenses	$1,248,226	$731,341	$33,169	$152,795	$2,165,531

NOTE 12 — RETIREMENT PLANS

Defined Benefit Plans

The university faculty is covered by the State Teachers Retirement System of Ohio (STRS). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (PERS). These retirement programs are statewide cost-sharing multiple-employer defined benefit pension plans. STRS and PERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute. Both STRS and PERS 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 43215-3771
(614) 227-4090
(888) 227-7877
www.strsoh.org

PERS Ohio
277 East Town Street
Columbus, OH 43215-4642
(614) 466-2085
(800) 222-PERS (7377)
www.opers.org

Other Postemployment Benefits

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

PERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit and to primary survivors of those retirees. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. The amount of employer contribution to fund postemployment benefits was $2.9 billion. PERS determines the amount, if any, of the associated health care costs that will be absorbed by PERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of PERS is included in the employer contribution rate. For the fiscal year ended December 31, 2001, PERS allocated 4.3 percent of the employer contribution rate to fund the health care program for retirees. The contributions allocated to retiree health benefits, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The actuarial value of assets available for these benefits at December 31, 2001 was $11.7 billion. At that date the actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $14.4 billion and $2.6 billion, respectively. There were 411,076 benefit recipients eligible for postemployment benefits at that date.

STRS currently provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Pursuant to ORC, STRS has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS.

Most benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS are included in the employer contribution rate. For the fiscal year ended June 30, 2001, STRS allocated employer contributions equal to 4.5 percent of covered payroll to a Health Care Reserve Fund (HCRF) from which payments for health care benefits are paid. The balance in the HCRF was $3.3 billion at June 30, 2001.

STRS expenditures for postemployment benefits during the year ended June 30, 2001 were $300.8 million. There were 102,132 benefit recipients eligible for postemployment benefits at that date.

Defined Contribution Plan

The Alternative Retirement Plan (ARP) is a defined contribution pension plan. Full-time administrative and professional staff and faculty with less than five years of service (those not vested in the existing defined benefit plans) as of ARP's implementation date were allowed to choose enrollment in ARP in lieu of PERS or STRS. Classified civil service employees are not eligible to participate in ARP. For those employees selecting participation in ARP, prior employee contributions to STRS and PERS were transferred from those plans and invested in individual accounts established with one of eight selected external providers.

ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Funding Policy

ORC provides STRS and PERS statutory authority to set employee and employer contributions. Contributions equal to those required by STRS and PERS 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 and PERS 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	PERS	ARP
Faculty:			
Plan Member	9.3%		9.3%
University	14.0%		14.0%*
Staff:			
Plan Member		8.5%	8.5%
University		13.31%	13.31%
Law Enforcement Staff:			
Plan Member (July 1 – Jan 31)		9.0%	9.0%
Plan Member (Feb 1 – June 30)		10.1%	10.1%
University		16.7%	16.7%

** Employer contributions include 5.76 percent paid to STRS. The remaining amount, 8.24 percent, is credited to employee's ARP account.*

The university's contributions, which represent 100 percent of required employer contributions, for the year ended June 30, 2002 and for each of the two preceding years are as follows:

Year Ended June 30,	STRS Annual Required Contribution	PERS Annual Required Contribution	ARP Annual Required Contribution
2000	$ 34,785	$ 65,891	$ 13,622
2001	$ 35,972	$ 54,645	$ 14,177
2002	$ 36,871	$ 71,988	$ 17,989

NOTE 13 — CAPITAL PROJECT COMMITMENTS

At June 30, 2002, the university is committed to future contractual obligations for capital expenditures of approximately $117,874.

These projects are funded by the following sources:

State appropriations	$60,165
Internal and other sources	57,709
Total	$117,874

NOTE 14 — CONTINGENCIES AND RISK MANAGEMENT

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

The university is self-insured for Hospitals professional malpractice liability; employee health benefits; and employee life, accidental death, and dismemberment benefits. Additional details regarding these self-insurance arrangements are provided in Note 5. The university also carries commercial insurance policies for various property, casualty, and excess liability risks. Over the past three years, settlement amounts related to these insured risks have not exceeded the university's coverage amounts.

NOTE 15 — FUNDS HELD IN TRUST BY OTHERS

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

NOTE 16 — UNFUNDED WORKERS' COMPENSATION LIABILITY

Under the State of Ohio's workers' compensation program, public employer state agencies, including state universities and university hospitals, pay workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Ohio Bureau of Workers' Compensation calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for injured workers and sets rates to collect this estimated amount from the participating state agencies and universities in that subsequent one-year period. As these claims will be paid out over a period of time, the bureau also actuarially calculates estimated amounts that will be paid in future periods. The university's pro-rata share of the estimated liability for such future payments has been calculated by the State of Ohio on the basis of the university's share of the actual cash payments paid to the bureau in the current fiscal year divided by such payments made by all participating entities.

As a part of the State of Ohio's implementation of GASB Statements No. 34 and 35, the state has instructed state-assisted colleges and universities to incorporate these allocated liabilities in their financial reports. Accordingly, the university's Statement of Net Assets reflects unfunded workers' compensation liabilities of $53,489 and $57,175 at June 30, 2002 and 2001, respectively.

Acknowledgements

The 2002 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller, Division of Accounting.

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Thomas F. Ewing – Associate Controller

Allan E. Freeman – Cost Analyst

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Hang (Becky) Lu – Accountant

Brenda K. Payne – Accountant

Patricia M. Privette – Financial Reporting Analyst

Phil A. Schirtzinger – Senior Cost Analyst

Jan E. Soboslai – Senior Accountant

Anne M. Wilcheck – Senior Accountant

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

Greta J. Russell – University Controller

2002 Board of Trustees

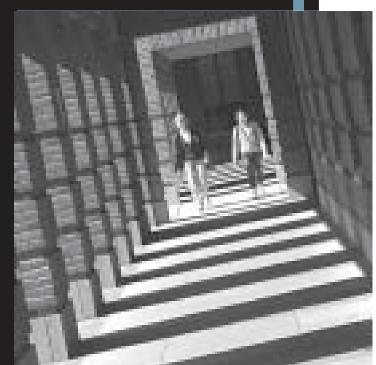
The 2002 Board of Trustees, pictured with Ohio State President Karen A. Holbrook. Standing (left to right): Paula A. Habib, Jo Ann Davidson, Dimon R. McFerson, Karen L. Hendricks, Douglas G. Borror, Joseph A. Shultz Seated: Robert M. Duncan, Zuheir Sofia, James F. Patterson, President Holbrook, Tamala Longaberger, Daniel M. Slane.

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

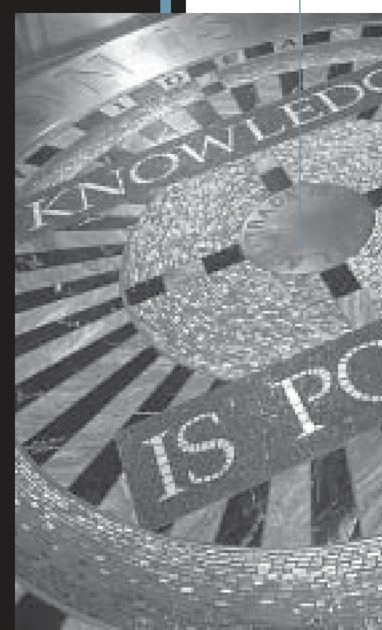
With aspirations to become one of the world's great public research and teaching universities,

Ohio State is on the move.

An ambitious Academic Plan—supported broadly and enthusiastically by various campus and community constituencies—is guiding the university toward a goal of worldwide recognition for distinguished academic programs; high-quality learning experiences; an environment that truly values and is enriched by diversity; and outreach efforts that fulfill our mission as a land-grant institution by addressing society's most compelling needs.



We are well on our way, thanks to the invaluable support of alumni, friends, and corporate and foundation partners from across the nation and around the world. Private gifts to support scholarships and fellowships, faculty chairs and professorships, research and technology, state-of-the-art new facilities, outreach programs, unrestricted funds, and a wide variety of other projects and initiatives, are already making a huge difference in our ability to reach these goals.



Even so, our vision for this great university demands that we do more. Implementing the strategies and initiatives in the Academic Plan requires our best efforts over a sustained period of time—especially in light of recent decreases in public funding.

We appreciate your interest in helping us to obtain the resources needed to make our vision a reality.

For detailed information about the Academic Plan, please visit www.osu.edu/academicplan.

For additional information about making a gift to support The Ohio State University, please visit www.giveto.osu.edu.


OWER

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