

The Ohio State University Research Foundation

(A Component Unit of The Ohio State University)

Financial Statements as of and for the
Years Ended June 30, 2008 and 2007, and
Independent Auditors' Report

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION
(A Component Unit of The Ohio State University)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of The Ohio State University Research Foundation (the "Research Foundation"), a component unit of The Ohio State University, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, 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 financial statements present fairly, in all material respects, the financial position of the Research Foundation as of June 30, 2008 and 2007, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Research Foundation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

October 31, 2008

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION (A Component Unit of The Ohio State University)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The Ohio State University Research Foundation (the "Research Foundation") for the years ended June 30, 2008 and 2007. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

ABOUT THE FINANCIAL STATEMENTS

The Research Foundation has implemented a governmental financial reporting model, which is set forth in Governmental Accounting Standards Board ("GASB") Statement Nos. 34 and 35. Under these accounting standards, the Research Foundation will present its financial reports in a single-column "business-type activity" format. 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 financial report includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, statement of cash flows, and footnotes.

The statement of net assets is the Research Foundation's balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the Research Foundation as of June 30, 2008, with comparative information as of June 30, 2007. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at market value. Capital assets, which include the Research Foundation's furniture and equipment, are shown net of accumulated depreciation. Net assets are grouped in the following categories:

- Invested in capital assets, net of plant debt
- Restricted—Nonexpendable (endowment and annuity funds)
- Restricted—Expendable (primarily current restricted and loan funds)
- Unrestricted

The statement of revenues, expenses, and changes in net assets is the Research Foundation's income statement. It details how net assets have increased (or decreased) during the fiscal year that ended June 30, 2008, with comparative information for Fiscal Year 2007. Depreciation is provided for capital assets, and there are required subtotals for net operating income or loss and net income or loss before additions to nonexpendable funds.

It should be noted that the required subtotal for net operating income or loss will generally reflect a loss for the Research Foundation. This is primarily due to the way operating and nonoperating items are being reported. Operating expenses include virtually all Research Foundation expenses. Operating revenues, however, exclude certain significant revenue streams, including our corporate operating budget. Under this paradigm, our operating loss will increase or decrease based upon the amount of our corporate operating budget.

The statement of cash flows details how cash has increased (or decreased) during the year ended June 30, 2008, with comparative information for Fiscal Year 2007. It breaks out the sources and uses of Research Foundation cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

Cash flows associated with the Research Foundation'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 footnotes, which follow the financial statements, provide additional details on the numbers in the financial statements.

GENERAL

The Ohio State University Research Foundation is a nonprofit corporation created as a vehicle to promote sponsored research at The Ohio State University (the "University").

In November 1936, the Ohio Secretary of State issued a charter to The Ohio State University Research Foundation as a nonprofit educational corporation. Incorporators of the Research Foundation included the renowned inventor Charles F. Kettering and James F. Lincoln, president of the Lincoln Electric Company. The Board of Directors consists of the following member directors:

Trustee Member (1):

Appointed by the Board of Trustees of the University.

University Administration Members (3):

Including the Vice President for Research, the Executive Vice President for Academic Affairs and Provost, and the Dean of the Graduate School as designated by the Board of Trustees of the University.

Faculty Members (4):

Selected from the faculty by the Research Committee of the University Senate.

Alumni Members (2):

Designated by The Ohio State University Alumni Association from alumni of the University.

At-Large (1):

Designated by the President of the University from among members of national organizations of distinguished engineers, scientists, and scholars.

The Research Foundation Board of Directors elects officers during the regular annual meeting. The officers include the President, Vice President, Secretary, Assistant Secretary, Treasurer, and Executive Director of the Research Foundation. The Directors appoint an Executive Committee and other committees as needed.

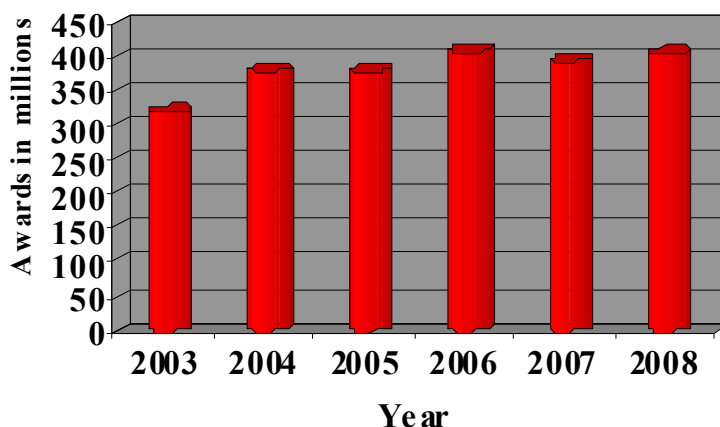
The function of the Research Foundation has evolved over the years in response to the needs of the research community within the University. The Research Foundation began as an organization created to encourage industry sponsorship of University research. It now provides specialized integrated administrative and financial services for research and other activities supported by a wide range of external sponsors.

The Research Foundation does not own or operate research facilities but utilizes facilities provided by the University under an agreement between the Board of Trustees of the University and the Research Foundation. Personnel working on Research Foundation projects are appointed as University personnel and are paid through the University under provisions of the agreement. The Research Foundation Board of Directors approves the operating budget for the Research Foundation's administrative expenses.

FINANCIAL HIGHLIGHTS AND KEY TRENDS

Awards totaled \$404 million in Fiscal Year 2008, a \$10 million (2.6%) increase from \$394 million in Fiscal Year 2007. Although there was a 3.4% increase in NIH awards, decreases in funding from the Departments of Defense, Labor, and other federal sources resulted in a net decrease in federal funding of almost 1%. The federal decrease was offset by modest gains from industry and other non-federal sources to yield the overall increase in award dollars for Fiscal Year 2008.

Award Growth



During Fiscal Year 2008, the Research Foundation experienced a small increase in sponsor revenues and expenditures of approximately \$1.8 million.

STATEMENT OF NET ASSETS

From June 30, 2007 to June 30, 2008, the cash balance increased by \$9 million (25%). This increase was due to continuing improvement within the billing teams and a significant increase in deferred revenue. The increase in deferred revenue was due to the amount of cash advanced from sponsors increasing by \$5.8 million during the year. The statement of cash flows, which is discussed in more detail below, provides additional detail on the sources and the uses of Research Foundation cash.

Following is a summary of the major components of the net assets of the Research Foundation for the years ended June 30, 2008, 2007 and 2006:

	2008	2007	2006
CURRENT ASSETS	\$ 100,580,263	\$ 92,915,432	\$ 85,061,106
CAPITAL ASSETS — Furniture and equipment	<u>592,787</u>	<u>826,724</u>	<u>639,373</u>
Total assets	<u>\$ 101,173,050</u>	<u>\$ 93,742,156</u>	<u>\$ 85,700,479</u>
CURRENT LIABILITIES	\$ 92,564,679	\$ 85,341,673	\$ 77,219,940
NONCURRENT LIABILITIES — Accrued vacation and sick leave	<u>355,250</u>	<u>349,676</u>	<u>358,900</u>
Total liabilities	<u>92,919,929</u>	<u>85,691,349</u>	<u>77,578,840</u>
NET ASSETS:			
Invested in capital assets	592,787	826,724	639,373
Unrestricted	<u>7,660,334</u>	<u>7,224,083</u>	<u>7,482,266</u>
Total net assets	<u>8,253,121</u>	<u>8,050,807</u>	<u>8,121,639</u>
Total liabilities and net assets	<u>\$ 101,173,050</u>	<u>\$ 93,742,156</u>	<u>\$ 85,700,479</u>

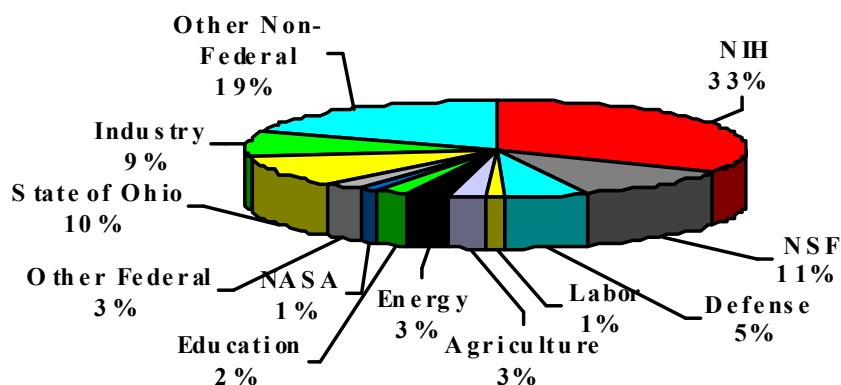
Accounts receivable and unbilled project costs decreased by \$1.5 million (2.7%) this year primarily due to improved billing, reporting, and collections processing. Under the current billing paradigm approximately \$4 million a month in fringe benefit expense cannot be drawn and deposited until after month-end. The Research Foundation is requesting that improvements be made to the University Payroll system that will facilitate collecting this cash by month-end.

2007–2006 Highlights — From June 30, 2006 to June 30, 2007, the cash balance increased by \$23 million (177%). Improved billing, reporting, and collections processing resulted in a \$14.8 million (21%) decrease in Accounts receivable and unbilled project costs while the amount of cash advanced from sponsors increased by \$4.8 million during the year.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our sponsored project revenue/expenditures increased modestly by \$1.8 million over last year. Twenty-seven colleges generated sponsored project revenue in Fiscal Year 2008; Medicine and Engineering combined for 52% of the total. Federal sponsors were the major source of revenue. The National Institutes of Health (NIH), our largest federal sponsor, accounted for 33% of the total.

Revenues / Expenditures by Source Funds Fiscal Year 2008



The transfer to the University represents interest belonging to the University that was earned on sponsor funds.

Increased consistency in billing and collection processes that resulted from changes to our billing team structure yielded a \$300,000 increase in net interest revenue. This increase took place during a precipitous decline in interest rates.

We recognize Sponsored Project Revenue as Sponsored Project Expenses are incurred. The excerpt below from our statement of revenues, expenses, and changes in net assets demonstrates this relationship.

	2008	2007	2006
SPONSOR PROJECT REVENUE	<u>\$378,917,953</u>	<u>\$377,114,762</u>	<u>\$ 366,960,720</u>
EXPENDITURES AND TRANSFERS:			
Sponsored project expenses:			
Personnel	\$186,025,878	\$175,463,288	\$ 171,453,117
Materials and services	89,266,449	98,034,949	98,620,780
Equipment	14,155,634	20,063,354	12,598,407
Travel	8,566,070	7,548,297	7,701,097
F&A charged by the University	<u>80,903,922</u>	<u>76,004,874</u>	<u>76,587,319</u>
Total Sponsored project expenses:	<u>\$378,917,953</u>	<u>\$377,114,762</u>	<u>\$ 366,960,720</u>

The University appropriation of nonoperating revenue of \$7.3 million represents the current year's Research Foundation operating budget. The Research administration expenditure line represents annual Research Foundation expenditures. The difference between these two line items is the budget surplus (deficit) for the fiscal year.

It is important to note that the Research Foundation did not overspend the available budget this year. The Research Foundation's available budget consists of the University appropriation and any unspent budget (budget carry forward) from prior years. For financial statement purposes, any noncapital spending from budget carry forward will flow through the income statement on the Research administration expenditure line and will therefore reduce net income in the year the spending takes place.

Additionally, for financial statement purposes, any noncapital spending from Net Assets will flow through the income statement as Other Operating Expense and will therefore reduce net income. In 2008, the Research Foundation funded the accounts receivable collection activity and the nonpersonnel operations budget with Board Designated funds in the amount of \$671,564.

2007–2006 Highlights— 2007 Sponsored project revenue/expenditures increased modestly by \$10 million (2.8%) over last year. Federal sponsors generated the majority of our revenue.

THE STATEMENT OF CASH FLOWS

The primary source of cash receipts for operating activities consists of payments from sponsors. Cash outlays represent payments for personnel, materials, services, equipment, and travel incurred for Sponsored Research activities.

It should be noted that our corporate expenditures are carried in Cash Flows from Operating Activities and our corporate operating budget is carried in Net Cash Provided by Noncapital Financing Activities. This results in a large positive cash flow from noncapital financing activities and a corresponding decrease in cash flow from operations.

Net cash provided by investing activities increased by approximately \$300,000 as explained under the Statement of Revenues, Expenses, and Changes in Net Assets.

FUTURE

The Research Foundation will continue to partner with the campus community to develop and implement simplified processes that decrease the administrative burden on University researchers while enhancing sponsored projects compliance. In addition, the Research Foundation will recommend how to most effectively use corporate net assets to further the University's research mission.

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION
(A Component Unit of The Ohio State University)

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 45,105,960	\$ 35,971,442
Accounts receivable and unbilled project costs	54,790,052	56,293,710
Other receivables	<u>684,251</u>	<u>650,280</u>
Total current assets	100,580,263	92,915,432
FURNITURE AND EQUIPMENT — Net of accumulated depreciation of approximately \$1,221,863 and \$958,349 in 2008 and 2007	<u>592,787</u>	<u>826,724</u>
TOTAL	<u>\$ 101,173,050</u>	<u>\$ 93,742,156</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 11,701,863	\$ 10,851,772
The Ohio State University	958,907	437,215
Accrued payroll	1,814,777	1,608,387
Accrued vacation and sick leave	31,175	28,210
Deferred revenue — sponsors	60,000,020	54,192,917
Facilities and administrative costs payable to University departments	18,057,937	17,756,696
Designated funds for University departments	<u> </u>	<u>466,476</u>
Total current liabilities	92,564,679	85,341,673
ACCRUED VACATION AND SICK LEAVE — Long term	<u>355,250</u>	<u>349,676</u>
Total liabilities	<u>92,919,929</u>	<u>85,691,349</u>
NET ASSETS:		
Invested in capital assets	592,787	826,724
Unrestricted	<u>7,660,334</u>	<u>7,224,083</u>
Total net assets	<u>8,253,121</u>	<u>8,050,807</u>
TOTAL	<u>\$ 101,173,050</u>	<u>\$ 93,742,156</u>

See notes to financial statements.

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION
(A Component Unit of The Ohio State University)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES — Sponsor project revenue	<u>\$ 378,917,953</u>	<u>\$ 377,114,762</u>
OPERATING EXPENSES — Sponsor project:		
Personnel	186,025,878	175,463,288
Materials and services	89,266,449	98,034,949
Equipment	14,155,634	20,063,354
Travel	8,566,070	7,548,297
Facilities and administrative cost charged by the University	80,903,922	76,004,874
Research administration	6,957,862	8,060,259
Depreciation	267,986	239,989
Other operating expense	<u>671,564</u>	<u>191,474</u>
Total operating expenses	<u>386,815,365</u>	<u>385,606,484</u>
OPERATING INCOME (LOSS)	<u>(7,897,412)</u>	<u>(8,491,722)</u>
NONOPERATING REVENUES AND EXPENSES:		
University appropriation	7,312,808	7,564,563
Interest income — net of interest expense	<u>1,163,080</u>	<u>856,327</u>
Net nonoperating revenues and expenses	<u>8,475,888</u>	<u>8,420,890</u>
INCOME (LOSS) BEFORE TRANSFERS	578,476	(70,832)
TRANSFERS TO THE UNIVERSITY	<u>(376,162)</u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	202,314	(70,832)
NET ASSETS — Beginning of year	<u>8,050,807</u>	<u>8,121,639</u>
NET ASSETS — End of year	<u>\$ 8,253,121</u>	<u>\$ 8,050,807</u>

See notes to financial statements.

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION
(A Component Unit of The Ohio State University)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from sponsors	\$ 385,728,265	\$ 397,095,531
Payments to employees	(192,768,810)	(183,607,036)
Payments to suppliers	<u>(191,890,614)</u>	<u>(198,504,832)</u>
Net cash provided by operating activities	<u>1,068,841</u>	<u>14,983,663</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
University appropriations	7,312,808	7,564,563
Transfer to the University	<u>(376,162)</u>	<u></u>
Net cash provided by noncapital financing activities	<u>6,936,646</u>	<u>7,564,563</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Purchases of furniture and equipment		
	<u>(34,049)</u>	<u>(427,340)</u>
Net cash used in capital and related financing activities	<u>(34,049)</u>	<u>(427,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Interest on cash investments		
	<u>1,163,080</u>	<u>856,327</u>
Net cash provided by investing activities	<u>1,163,080</u>	<u>856,327</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,134,518	22,977,213
CASH AND CASH EQUIVALENTS — Beginning of year	<u>35,971,442</u>	<u>12,994,229</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 45,105,960</u>	<u>\$ 35,971,442</u>

(Continued)

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION
(A Component Unit of The Ohio State University)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES:		
Operating loss	\$ (7,897,412)	\$ (8,491,722)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	267,986	239,989
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable and unbilled project costs	1,503,658	14,879,413
Other receivables	(33,971)	243,475
Accounts payable — trade	850,091	2,943,655
Accounts payable — The Ohio State University	521,692	437,215
Accrued payroll	206,390	(77,403)
Accrued vacation and sick leave	8,539	(6,086)
Deferred revenue — sponsors	5,807,103	4,796,756
Facilities and administrative costs payable to University departments	301,241	(42,754)
Designated funds for University departments	<u>(466,476)</u>	<u>61,125</u>
Net cash provided by operating activities	<u>\$ 1,068,841</u>	<u>\$ 14,983,663</u>

See notes to financial statements.

(Concluded)

THE OHIO STATE UNIVERSITY RESEARCH FOUNDATION

(A Component Unit of The Ohio State University)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. ORGANIZATION

The Ohio State University Research Foundation (the “Research Foundation”), a component unit of The Ohio State University (the “University”), is a nonprofit educational corporation created in 1936 as a vehicle to promote the development, implementation, and coordination of sponsored research at the University in the furtherance of the University’s educational objectives. The Research Foundation’s financial statements and accounts are consolidated with the University’s for purposes of complying with the University’s reporting requirements.

2. ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Basis of Presentation — The financial statements of the Research Foundation have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) including 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)*. The presentation required by GASB Statement No. 34 and GASB Statement No. 35 provides a comprehensive, entity-wide perspective of the Research Foundation’s assets, liabilities, net assets, revenue, expenses, and changes in net assets, and cash flows.

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

Revenue Recognition — Substantially all of the Research Foundation’s revenues are derived from restricted grants and cost reimbursement contracts which provide for the recovery of direct and related facilities and administrative costs, subject to audit. The Research Foundation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related facilities and administrative costs is generally recorded at fixed rates negotiated with the Department of Health and Human Services, the cognizant federal audit agency.

Revenues derived from grants and contracts are reported as operating revenues. Transactions which are capital, finance, or investment-related are reported as nonoperating revenues. University appropriations and interest earned on cash investments are reported as nonoperating revenues.

Cash and Cash Equivalents — Cash and cash equivalents consist of demand deposit accounts and certificates of deposit with original maturities of less than 90 days. The Research Foundation’s cash is in the University’s account and is commingled with other University-related entities and invested daily in overnight investment vehicles, which are considered cash equivalents. However, they are not required to be categorized under GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Investment income is allocated to the Research Foundation based on their ownership of the funds included in the University’s account.

Accounts Receivable and Unbilled Project Costs — Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. An estimated receivable has been recorded for services rendered but not yet billed as of June 30, 2008. The receivable was arrived at primarily by taking the subsequent payments of expenses related to cost reimbursement contracts invoiced after year-end, and recording at year-end the portions incurred and reimbursable from sponsors as of year-end.

Furniture and Equipment — Furniture and equipment are recorded at cost and the capitalization threshold is \$3,000. Provision is made for depreciation of physical properties at rates calculated to absorb costs generally over the asset’s estimated useful life of five years. Depreciation is calculated using the straight-line method. Depreciation expense was \$267,986 and \$239,989 for the years ended June 30, 2008 and 2007, respectively.

Expenditures for maintenance and repairs are charged to operating expenses as incurred; major renewals and betterments are capitalized.

	June 30, 2007	Additions	Disposal	June 30, 2008
Capital assets:				
Furniture and equipment	\$ 1,785,073	\$ 34,049	\$ (4,472)	\$ 1,814,650
Less accumulated depreciation	<u>958,349</u>	<u>267,986</u>	<u>(4,472)</u>	<u>1,221,863</u>
Net capital assets	<u>\$ 826,724</u>	<u>\$ (233,937)</u>	<u>\$ -</u>	<u>\$ 592,787</u>
	June 30, 2006	Additions	Disposal	June 30, 2007
Capital assets:				
Furniture and equipment	\$ 1,387,075	\$ 427,340	\$ (29,342)	\$ 1,785,073
Less accumulated depreciation	<u>747,702</u>	<u>239,989</u>	<u>(29,342)</u>	<u>958,349</u>
Net capital assets	<u>\$ 639,373</u>	<u>\$ 187,351</u>	<u>\$ -</u>	<u>\$ 826,724</u>

Compensated Absences — Research Foundation 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 Research Foundation 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.

Activity for the years ended June 30, 2008 and 2007, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences — 2008	\$ 377,886	\$ 8,539	\$ -	\$ 386,425	\$ 31,175
Compensated Absences — 2007	383,972		6,086	377,886	28,210

In-Kind Income — The Research Foundation is a component unit of the University. As part of the relationship, transfers of funds occur between the University and the Research Foundation for certain sponsored project expenditures and research administration.

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 expenses 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.

New Accounting Pronouncements — In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and various recognition triggers occur. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes standards for the capitalization, amortization, and financial reporting of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement requires endowments to report their land and other real estate at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The Research Foundation management has not yet determined the impact that implementation of GASB Statement Nos. 49, 51, 52, and 53 will have on the Research Foundation's financial statements.

3. DESIGNATED FUNDS FOR UNIVERSITY DEPARTMENTS

Designated funds for University departments represent unrestricted funds resulting from residual amounts from certain completed projects that are for use at the discretion of University departments and funds payable to the University from royalties held by the Research Foundation.

4. TAX-EXEMPT STATUS

The Research Foundation is exempt from federal taxes on income under Section 501(c)(3) of the Internal Revenue Code.

5. RETIREMENT PLAN

All eligible University personnel assigned to the Research Foundation are covered by the Public Employees Retirement System of Ohio (OPERS). Employees may opt out of OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

Defined Benefit Plans — OPERS offers statewide cost-sharing multiple-employer defined-benefit pension plans. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. OPERS issues a separate, publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by contacting OPERS at Ohio PERS, 277 East Town Street, Columbus, OH 43215-4642, (614) 222-5601, (800) 222-PERS (7377), or www.opers.org.

In addition to the retirement benefits described above, OPERS provides postemployment health care benefits.

OPERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For the fiscal year ended December 31, 2007, OPERS allocated 5.0% (January 1 through June 30) and 6.0% (July 1 through December 31) of the employer contribution rate to fund the health care program for retirees.

The actuarial value of assets available for these benefits at December 31, 2006 (the date of the system's latest actuarial review) was \$12 billion. There were 374,979 active contributing participants in the OPERS Traditional Pension and Combined Pension Plans (i.e., OPERS plans with postemployment health coverage) as of December 31, 2007 and 362,130 active contributing participants used in the December 31, 2006, actuarial valuation.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In response to skyrocketing health care costs, the HCPP restructured OPERS' health care coverage to improve the financial solvency of the fund by creating a separate investment tool for health care coverage.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. HCPP incorporates a cafeteria approach, offering a broad range of health care options which allows benefit recipients to use their monthly allocation to purchase

health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Defined Contribution Plan — The ARP is a defined-contribution pension plan. Full-time administrative and professional staff and faculty may choose to enroll in ARP in lieu of OPERS. Classified civil service employees hired on or after August 1, 2005, are also eligible to participate in ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant’s choice of investment options.

OPERS also offers a defined-contribution plan, the Member-Directed Plan (MD). The MD 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.

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

Funding Policy — ORC provides OPERS statutory authority to set employee and employer contributions. Contributions equal to those required by OPERS are required for ARP. For employees enrolling in ARP, ORC requires a portion (which may be revised pursuant to periodic actuarial studies) of the employer contribution be contributed to OPERS to enhance the stability of these plans. The required contribution rates (as a percentage of covered payrolls) for plan members and the Research Foundation are as follows for 2008, 2007, and 2006:

	Employee Share	Employer Share
July 1, 2005 — June 30, 2006	9.00 %	13.54 %
July 1, 2006 — June 30, 2007	9.00	13.77
July 1, 2007 — December 31, 2007	9.50	13.77
January 1, 2008 — June 30, 2008	10.00	14.00

For the years ended June 30, 2008, 2007, and 2006, the Research Foundation reimbursed the University for the following costs for contributions associated with the retirement plans:

Years Ending	Contributions	
	PERS	ARP
2006	\$ 576,138	\$ 100,294
2007	584,467	102,161
2008	580,093	95,423

6. COMMITMENTS AND CONTINGENCIES

The Research Foundation, as an associated foundation, is covered under the University’s self-insurance arrangements and commercial insurance policies. The University is self-insured for employee health

care benefits; and employee life, accidental death, and dismemberment benefits. The University also carries commercial insurance policies for various property, casualty, and excess liability risks. Over the past three years, settlement amounts related to these insured risks have not exceeded the University's coverage amounts.

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of The Ohio State University Research Foundation (the "Research Foundation"), a component unit of The Ohio State University, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Research Foundation in a separate letter dated October 31, 2008.

This report is intended solely for the information and use of the Board of Directors, management of the Research Foundation, federal awarding agencies, state funding agencies, pass-through entities, and the Auditor of the State of Ohio, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

October 31, 2008