THE OHIO STATE UNIVERSITY

Nuclear Reactor Laboratory

1298 Kinnear Road
Columbus, OH 43212-1154
Phone 614-688-8220
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Mr. Jessie Quichocho, Project Manager
Research and Test Reactors Branch
Division of Policy and Rulemaking
Office of Nuclear Reactor Regulation

July 26, 2006

RE: Responses to the Request for Additional Information Regarding License Renewal, Ohio State University (TAC NO. MA 7724)

Dear Mr. Quichocho,

Please find enclosed responses to your request for additional information of March 2006 addressed to Mr. Andrew Kauffman.

For Financial Qualification (1.a.) we have enclosed the most recent Financial Report for The Ohio State University as you requested. There is also a letter from the OSURR Fiscal Administrator, Patricia Chrisenberry, indicating our sources of funding. For Items (1.b.) and (1.c.) there is a document entitled "Financial Qualifications" which provides the bases for the assumptions that there is reasonable assurance that The Ohio State University will be able to fund operating and eventual decommissioning costs for the OSURR.

For Item (2), Operator Requalification Program, we have enclosed a copy of Administrative Procedure AP-09, RO/SRO Requalification, which constitutes our requal program.

In Item (3) you make reference to an approved physical security plan on file with the NRC. Please be advised that we do not have a plan on file with the NRC and have not been required to since 1995. We have enclosed an explanation of this entitled "Physical Security Plan 10CFR73.67".

A020
M004

If you have questions on these responses to your inquires please contact Mr. Andrew Kauffman at 614 688-8220.

I declare under penalty of perjury that the foregoing is true and correct.
Executed on July 19, 2006.

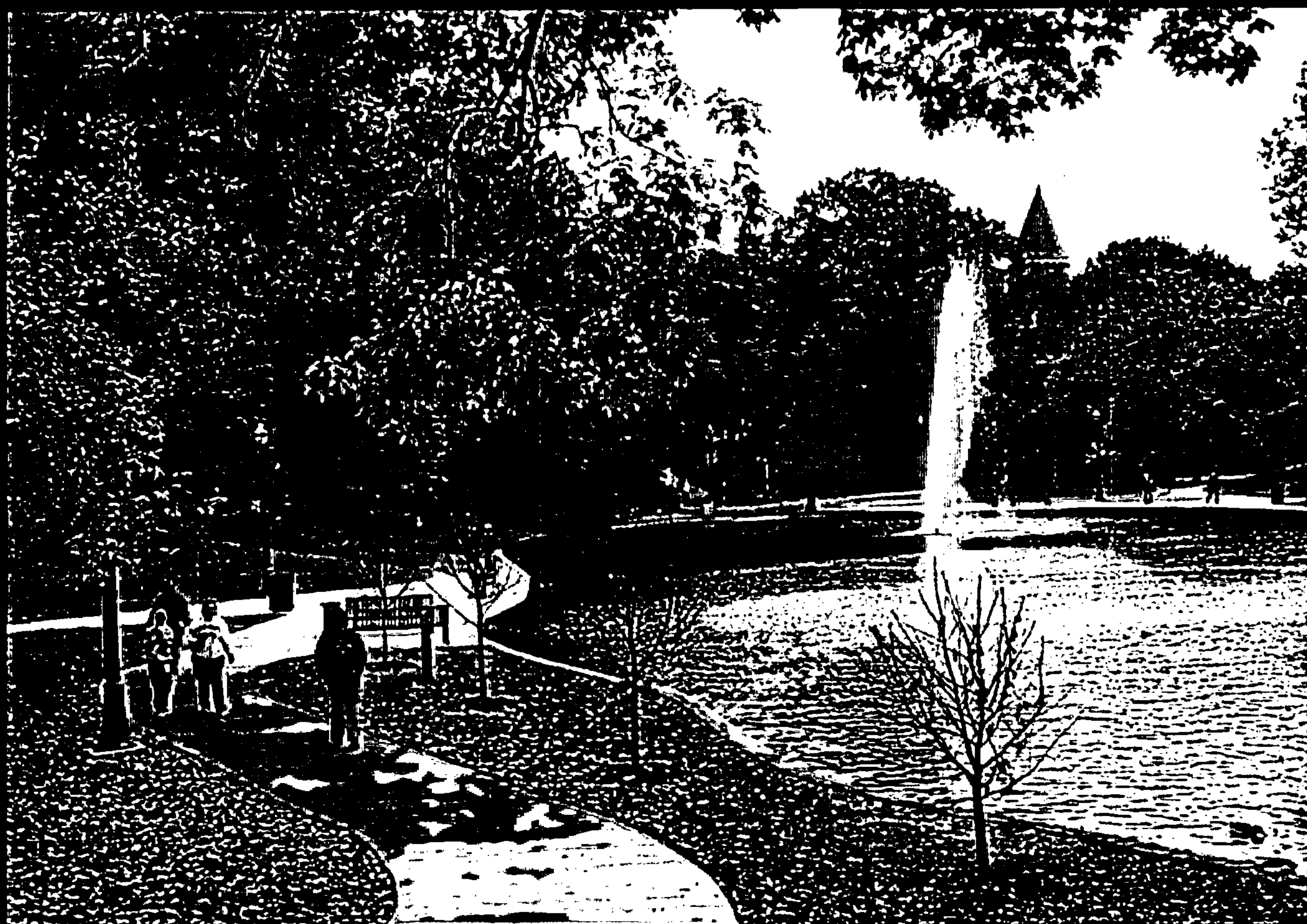
Sincerely,

Richard S Denning

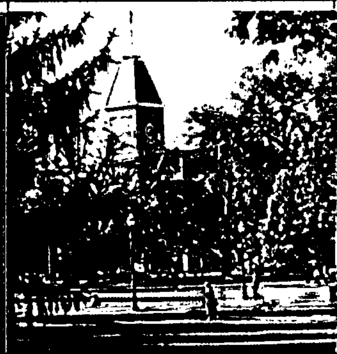
Richard Denning, Director

c. W.A. "Bud" Baeslack III, Dean, College of Engineering, w/o enclosures
c. Andrew C. Kauffman, Associate Director, OSU Nuclear Reactor Lab

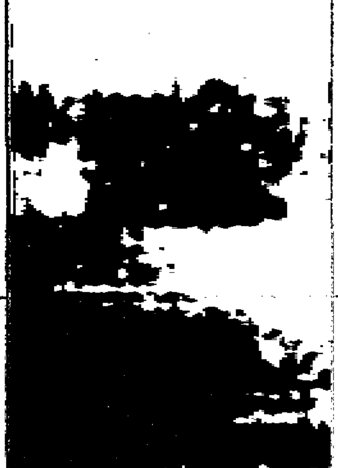
THE OHIO STATE UNIVERSITY



2005 Financial Report



Contents



Letter

We are pleased to present the consolidated financial report for The Ohio State University for the years ended June 30, 2005 and 2004.

The accompanying financial report indicates that the university's financial health remains sound, with growth in tuition, grants and contracts, and patient care revenues offsetting similar increases in operating expenses. Total expendable net assets (equity) decreased $49 million, to $1.14 billion at June 30, 2005, primarily due to expenditures for capital projects. Total net assets increased $352 million, to $3.78 billion. Issuance of commercial paper increased the university's plant debt—in the form of bonds, notes, and capital leases—to $878 million. Total autumn 2004 enrollments exceeded 58,000 students, and freshman retention rates continue to improve.

Under the leadership of Karen A. Holbrook, Ohio State has maintained its focus on the six core strategies that comprise the university's Academic Plan:

- 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

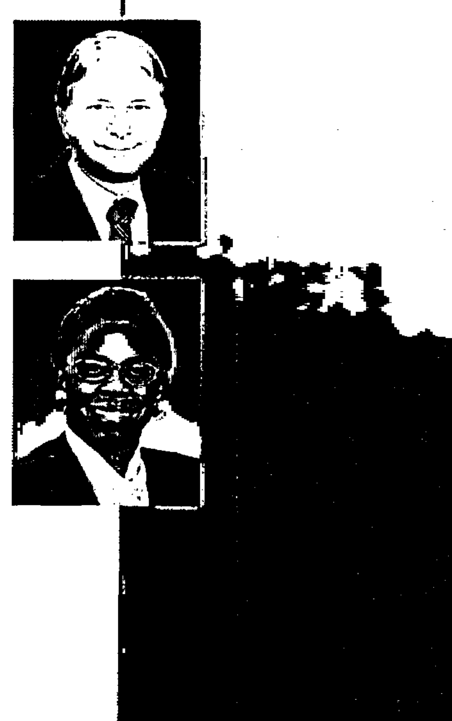
Protecting the university's resources and reputation requires effective internal controls, both to prevent problems and to detect those that do occur. Ohio State operates in a decentralized environment, with college deans, their senior fiscal officers, and literally hundreds of faculty and staff playing key stewardship roles. We are working closely with our colleagues across the institution to provide clear policies and to monitor our compliance with these policies. In addition, the university and its Board of Trustees are implementing best practices identified in the Sarbanes-Oxley Act, including a separate Board Audit Committee, a sub-certification process for colleges and support units, and (in 2006) an anonymous reporting system for suspected instances of fraud and non-compliance.

We encourage you to read the financial report, and we welcome your interest in this great university. Go Bucks!

Very truly yours,

William J. Shkurti
Senior Vice President
for Business and Finance

Greta J. Russell
University Controller



Deloitte.

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Independent Auditors' Report

To the Board of Trustees 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, 2005 and 2004, and the related consolidated statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the respective financial position of The Ohio State University as of June 30, 2005 and 2004 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.

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

Deloitte + Touche LLP

October 19, 2005

The Ohio State University

Management's Discussion and Analysis

for the Year Ended June 30, 2005

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, 2005, with comparative information for the years ended June 30, 2004, and June 30, 2003. 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 58,000 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 master's degree programs, and 90 doctoral programs. The university operates one of the nation's leading academic medical centers, which includes the OSU Health System. The health system comprises The Ohio State University Medical Center, Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, Richard M. Ross Heart Hospital, University Hospital East, OSU Harding Hospital, and 24 outpatient care centers. The system provided services to over 51,000 inpatients and 857,000 outpatients during fiscal year 2005.

Ohio State is governed by a board of 11 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 18 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 (OARDC), and the Ohio Supercomputer Center. In addition, these statements include consolidated financial results for a number of legally separate entities subject to board control, including:

- the OSU Research Foundation (which administers sponsored research grants and contracts for the university)
- the OSU Foundation (a fund-raising 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)
- 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)
- OSU Physicians, Inc. (the central practice group for physician faculty members of the College of Medicine and Public Health)

The entities listed above meet the "financial accountability" criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. A complete listing of the entities that are included in the university's financial report is provided in the Basis of Presentation section of the footnotes.

About the Financial Statements

The university presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34.* In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Other Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements.

The **Statement of Net Assets** is the university's balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the university as of June 30, 2005, with comparative information as of June 30, 2004. 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, 2005, with comparative information for Fiscal Year 2004. Tuition revenue is shown net of scholarship allowances, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

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

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2005, with comparative information for Fiscal Year 2004. 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.

Financial Highlights and Key Trends

The university's financial health remained sound in 2005, with growth in tuition, grants and contracts, and patient care revenues offsetting similar increases in operating expenses. Total unrestricted and restricted-expendable net assets decreased $49 million, to $1.14 billion at June 30, 2005, primarily due to expenditures for capital projects. Issuance of commercial paper increased total plant debt $63 million, to $878 million. University investments yielded $154 million of net investment income.

Student enrollment trends reflect continued strong demand for an Ohio State education. Total autumn quarter 2004 enrollment for all campuses was 58,365, up from 58,254 in autumn 2003. And freshman retention continues to improve. Of the freshmen enrolled in autumn 2003, 88% returned to Ohio State in autumn 2004, up from 87.7% in the comparable 2002–2003 period.

The following sections provide additional details on the university's 2005 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

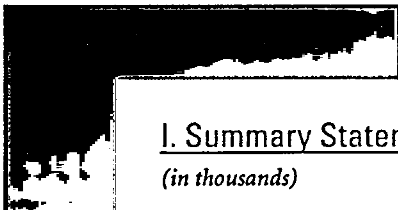
I. Statement of Net Assets

Total university **cash and current investment** balances decreased $545 million in 2005. To increase the level of operating support provided by endowment funds, the university transferred approximately $478 million of temporary investments to the Endowment Fund to establish the Long Term Component and President's Strategic Investment endowment funds. 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** increased $569 million, to $1.72 billion at June 30, 2005, due to a combination of transfers from temporary investments, market appreciation, and new endowment gifts. 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 $380 million, to $2.47 billion at June 30, 2005. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 5 years (for computer equipment) to 100 years (for certain building components such as foundations).

Student enrollment trends reflect continued strong demand for an Ohio State education. Total autumn quarter 2004 enrollment for all campuses was 58,365, up from 58,254 in autumn 2003.



I. Summary Statements of Net Assets

(in thousands)

	2005	2004	2003
Cash and current investments	$ 583,805	$1,128,570	$ 836,704
Current receivables, inventories and prepaid expenses	470,770	405,275	384,685
Total current assets	1,054,575	1,533,845	1,221,389
Restricted cash and cash equivalents	50,203	34,030	16,125
Noncurrent notes and pledges receivable	85,428	89,082	92,515
Endowments and other long-term investments	1,721,226	1,152,338	1,017,094
Capital assets, net of accumulated depreciation	2,468,776	2,088,665	1,869,355
Total noncurrent assets	4,325,633	3,364,115	2,995,089
Total assets	$5,380,208	$4,897,960	$4,216,478
Accounts payable and accrued expenses	$368,127	$323,468	$272,636
Deferred revenues and deposits	154,424	140,647	138,787
Commercial paper and current portion of bonds, notes and lease obligations	480,580	411,270	349,206
Other current liabilities	10,140	10,809	9,496
Total current liabilities	1,013,271	886,194	770,125
Noncurrent portion of bonds, notes and lease obligations	396,960	403,336	237,027
Other noncurrent liabilities	190,896	181,678	171,781
Total noncurrent liabilities	587,856	585,014	408,808
Total liabilities	$1,601,127	$1,471,208	$1,178,933
Invested in capital assets, net of related debt	$1,590,235	$1,273,058	$1,266,371
Restricted – nonexpendable net assets	1,050,685	966,758	791,188
Restricted – expendable net assets	462,574	465,002	445,238
Unrestricted net assets	675,587	721,934	534,748
Total net assets	$3,779,081	$3,426,752	$3,037,545

Major projects completed in 2005 include the Richard M. Ross Heart Hospital, the Knowlton School of Architecture, the Physical Sciences Research Building, the Hagerty Hall and Page Hall renovations, and two new parking garages. In addition, several major construction projects are currently under way or in advanced planning stages, including:

- *New Recreation Center* (A) – Construction is nearing completion on a new 604,800 square foot recreation center to replace Larkins Hall. The $140 million facility will house a 50-meter swimming pool and diving well, recreation, class and lap pools, 16 basketball courts, six multi-purpose rooms, squash courts, racquetball courts, and a 28,000 square foot fitness center.

- *Biomedical Research Tower* (B) – Construction continues on a ten-story $151 million biomedical research facility that will house up to 120 faculty and 400 additional researchers for the College of Medicine and Public Health.
- *Mechanical Engineering Building Replacement* (C) – Work continues on a $72 million project to construct new space for the Mechanical Engineering Department on the former Robinson Lab site.
- *McCracken Power Plant Improvements* – A $73 million Emissions Compliance Project is under way to replace four boilers at the main campus power plant. The new boilers will reduce emissions, increase capacity, and meet future campus steam demands. Also under way are projects to add capacity to the central chilled water plant ($8 million) and to maintain the power plant's ability to burn coal ($3 million).
- *Wexner Center for the Arts Renovation* (D) – A $14.5 million renovation and retrofit project is under way to correct building envelope and system problems.
- *William Oxley Thompson Memorial Library Renovation* – Planning continues 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.

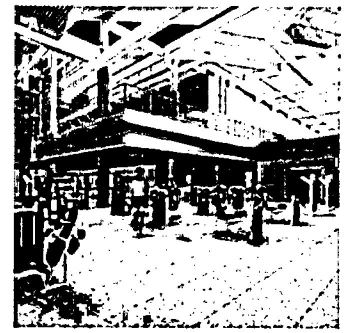
The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $210 million at June 30, 2005.

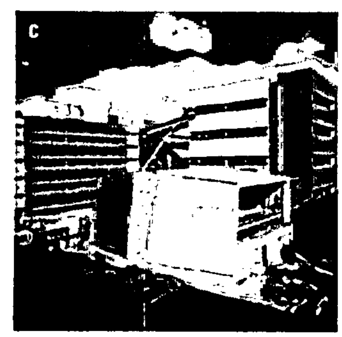
Total university debt, in the form of commercial paper, bonds, notes and capital lease obligations, increased $63 million, to $878 million at June 30, 2005. During 2005, the university issued $128 million of commercial paper (net of current-year redemptions), secured by the general receipts of the university. The university used these debt proceeds to fund current capital expenditures.

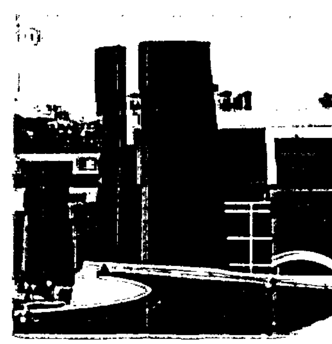
The university's plant debt includes variable rate demand bonds that mature at various dates through 2032. Governmental Accounting Standards Board Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the balance sheet classification of these bonds. Under 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.

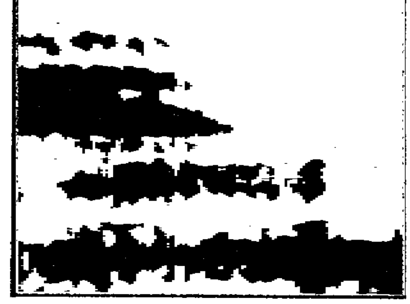
Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. These obligations totaled $305 million and $320 million at June 30, 2005 and 2004, respectively.

On August 10, 2005, the university issued $279 million of general receipts bonds and $130 million of variable rate demand bonds, maturing at various dates through 2035. Approximately $206 million of the bond proceeds was used to retire existing commercial paper and bond debt. The remainder will be used to fund various construction projects.









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

(in thousands)

	2005	2004	2003
Operating Revenues:			
Tuition and fees, net	$ 501,941	$ 436,218	$ 392,609
Grants and contracts	534,476	508,974	482,228
Auxiliary enterprises sales and services, net	160,711	163,162	141,543
OSU Health System sales and services, net	1,078,181	932,200	819,015
OSU Physicians sales and services	189,101	112,036	18,857
Departmental sales and other operating revenues	119,531	110,319	108,617
Total operating revenues	2,583,941	2,262,909	1,962,869
Operating Expenses:			
Educational and general	1,457,898	1,406,768	1,343,564
Auxiliary enterprises	174,206	178,645	164,130
OSU Health System	1,071,762	937,748	809,584
OSU Physicians	169,005	101,778	17,048
Depreciation	145,976	141,477	140,608
Total operating expenses	3,018,847	2,766,416	2,474,934
Net operating income (loss)	(434,906)	(503,507)	(512,065)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	438,499	433,984	437,363
Gifts – current use	65,676	52,500	79,144
Net investment income (loss)	154,289	244,013	69,754
Other non-operating revenues (expense)	(29,895)	(19,617)	(19,036)
Income (loss) before other revenues, expenses, gains or losses	193,663	207,373	55,160
State capital appropriations	87,305	102,709	56,878
Private capital gifts	16,638	27,647	18,213
Additions to permanent endowments	54,723	51,478	46,026
Income (loss) before extraordinary item	352,329	389,207	176,277
Extraordinary item:			
Reallocation of unfunded workers' compensation liability to State of Ohio	-	-	53,489
Increase (decrease) in net assets	352,329	389,207	229,766
Net assets – beginning of year	3,426,752	3,037,545	2,807,779
Net assets – end of year	$3,779,081	$3,426,752	$3,037,545

Accounts payable and accrued expenses increased $45 million, primarily due to a $37 million increase in medical malpractice accruals.

2004-2003 Highlights

Total university cash and current investment balances increased $292 million, primarily due to two September 2003 bond issues, which yielded net proceeds (after refunding of existing debt) of $244 million. Total university plant debt increased $228 million, to $815 million. Total unrestricted and restricted-expendable net assets increased $207 million, to $1.19 billion.

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

Net tuition and fees increased $66 million, to $502 million in 2005. In recognition of the difficult financial challenges facing Ohio State, the governor and the legislature allowed the university to raise tuition above the 9.9% tuition cap placed on most state institutions—up to a maximum of 12.9% above the prior academic year—under the condition that 3.9% of the increase would be earmarked for financial aid and student technology.

Grant and contract revenues increased $26 million, to $534 million in 2005, primarily due to a $31 million increase in sponsored research programs administered by the OSU Research Foundation. This increase was partially offset by decreases in other grant/contract activity, including a $2 million decrease in local grants and contracts.

Fiscal Year 2005 saw a continuation of moderate growth in total **educational and general expenses.** Total E&G expenses increased approximately 3.6%, to $1.46 billion. Additional details are provided at right.

Total **instructional and departmental research** expenses increased $40 million in 2005, primarily due to faculty/staff salary increases, which averaged 3.5%, targeted investments to enhance academic programs, and increases in college spending authority under the university's restructured budget process, which distributes incremental resources based on credit hours and enrollments. Increases in **separately budgeted research** reflect continued growth in sponsored research programs administered by the OSU Research Foundation. **Public service** expenses decreased $15 million, primarily due to reductions in restricted expenditures. **Institutional support** decreased $16 million, primarily due to reductions in central charges for self-insured employee health plans (increased health benefit costs in 2005 were distributed to other E&G categories, auxiliaries, and the OSU Health System via increases in the composite benefit rates charged to university departments).

Sales and service revenues of the university's **Auxiliary Enterprises** were stable in 2005, decreasing $2 million, to $161 million. Total auxiliary expenses decreased $4 million, to $174 million.

The Ohio State University Health System continued to grow during Fiscal Year 2005. The Richard M. Ross Heart Hospital opened in first half of the year with 90 beds and specialized operating and procedure rooms. This new facility was very quickly filled to capacity. The health system opened many new services while expanding established outpatient services at the Morehouse Medical Plaza on Kenny Road.

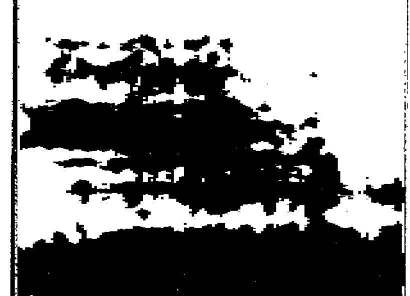
Educational and General Expenses

(in thousands)

	2005	2004	2003
Instruction and departmental research	$ 617,890	$ 577,500	$ 547,367
Separately budgeted research	333,554	317,310	303,057
Public service	95,737	110,750	114,916
Academic support	108,489	103,502	101,292
Student services	70,020	65,906	57,145
Institutional support	93,472	109,331	110,144
Operation and maintenance of plant	84,288	73,133	68,154
Scholarships and fellowships	54,448	49,336	41,489
Total	$1,457,898	$1,406,768	$1,343,564

Health system inpatient admissions increased 4.1% while outpatients grew by 6,700 patients. Consolidated health system sales and service revenues increased $146 million (15.7%) due to volume increases along with selective rate increases. Expenses for the consolidated health system (excluding depreciation, interest, and interfund transfers) increased $134 million (14.3%). Salaries and benefits increased 15.6% due to labor market conditions and increased manpower needs. Supplies increased 11.2% due to medical advances, inflation, and more intensive patient care services, but tempered by cost-saving initiatives begun during the year. The health system's net income (including depreciation, interest, and interfund transfers) for 2005 was $16.4 million.

Looking ahead, the OSU Health System will be challenged by the national trend to meet the increase in demand for health services arising from an aging population and increasing consumer expectations. The health system again expects revenues to increase by 12% with focus on the six signature programs: cancer, critical care, heart, imaging, neuroscience, and transplantation. In Fiscal Year 2006 this



will be driven by growing admissions that are projected to increase by 3,289 or 6.4%, and outpatient visits that are expected to increase by 8,800. Included are emergency department visits, which are expected to increase by 11,700 or 13.1%. The health system will continue to be challenged by the increasing cost for care givers, medical technicians, malpractice costs, supplies, pharmaceuticals, purchased service, and technology.

The health system continues to invest in the Medical Center research and teaching initiatives, resulting in the delivery of additional leading edge clinical services while fulfilling its academic mission. In response to the increased demand for services, the health system has a number of initiatives under way including: expansion of the Ross Heart Hospital; continuing productivity and non-labor cost saving initiatives; Digestive Program construction to support clinical and faculty space; and planning for new clinical facilities including expansion of the James Cancer Hospital. Despite the challenges and the changing health care environment, the health system expects to improve its financial position during the upcoming year. The health system will continue to play a key role in supporting the Medical Center and its goal of becoming a leading academic medical center provider by 2008.

Revenues and expenses of **OSU Physicians, Inc.**, the university's central practice group for physician faculty members of the College of Medicine and Public Health, continued to grow in 2005, reflecting the first full year of activity for several of the departmental practice groups that have joined the new combined entity. Total patient revenues grew from $112 million to $189 million. Total OSUP expenses (excluding depreciation, interest, and interfund transfers) grew from $102 million to $169 million.

OSUP, Inc., which was incorporated in Ohio in 2002, is the single member of 16 limited liability companies. As of June 30, 2005, only 12 limited liability companies are consolidated with the operations of the OSUP, Inc. for financial statement purposes. The other four (Anesthesiology, Orthopedics, Otolaryngology, and Radiation Medicine) had no 2005 activity. The table at left lists those LLCs that were included in OSUP's financial reports in 2005 and 2004.

Practice Plan	2005	2004
Family Medicine Foundation, LLC	X	X
OSU Anesthesiology, LLC		
OSU Children's Pediatrics, LLC	X	X
OSU Emergency Medicine, LLC	X	X
OSU Eye Physicians and Surgeons, LLC	X	
OSU GYN and OB Consultants, LLC	X	X
OSU Internal Medicine, LLC	X	X
OSU Neuroscience Center, LLC	X	X
OSU Orthopedics, LLC		
OSU Otolaryngology-Head and Neck Surgery, LLC		
OSU Pathology, LLC	X	X
OSU Physical Medicine and Rehabilitation, LLC	X	X
OSU Psychiatry, LLC	X	X
OSU Radiation Medicine, LLC		
OSU Radiology, LLC	X	X
OSU Surgery, LLC	X	X

Non-endowment gifts to the university (including gifts for current use and gifts for capital projects) totaled $82.3 million in 2005, a $2.2 million increase over 2004. New gift **additions to permanent endowments** increased $3.2 million, a 6% increase over 2004. University Development estimates that gift additions to the endowment for fiscal year 2006 will be in the $50–$60 million range.

During 2005, the number of donors to the university reached an all-time high of 104,607, compared with last year's previous record of 104,446. The university also experienced a 7% increase in the number of gifts of $10,000 or more.

Modest returns in the equity market, coupled with a slight increase in bond prices due to falling interest rates for long-term bonds, resulted in **net investment income** of $154 million in 2005. This figure includes $63 million of interest and dividends and $91 million net appreciation in the fair market value of university investments.

2004-2003 Highlights: Last year, the university reported significant growth in tuition, OSU Health System and OSU Physicians revenues, with total operating revenues increasing $300 million, to $2.26 billion. A strong equity market coupled with a neutral fixed income market resulted in net investment income of $244 million. Total operating expenses increased $291 million, to $2.76 billion, primarily due to increases in OSU Health System and OSU Physicians expenses.

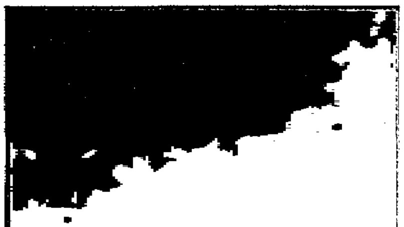
III. University Cash Flows Summary

(in thousands)

	2005	2004	2003
Net cash flows from operating activities	$(281,695)	$(333,195)	$(387,450)
Net cash flows from noncapital financing activities	562,654	549,711	578,294
Capital appropriations and gifts for capital projects	102,938	119,597	76,797
Proceeds from issuance of bonds and notes payable	174,622	390,955	124,461
Payments for purchase and construction of capital assets	(527,563)	(346,387)	(246,072)
Principal and interest payments on capital debt	(140,854)	(177,091)	(140,976)
Net cash flows from investing activities	20,497	(160,457)	(182,088)
Net increase (decrease) in cash	$ (89,401)	$ 43,133	$(177,034)

III. Statement of Cash Flows

Total university cash and cash equivalents decreased $89 million in 2005. Total cash provided by operating and noncapital financial activities was $281 million, up $64 million compared with 2004. Total cash used for capital financing activities was $391 million, primarily due to payments for purchase and construction of capital assets, which totaled $528 million. The $175 million of proceeds from issuance of bonds and notes payable consists primarily of commercial paper issued for interim financing of capital expenditures. Total cash provided by investing activities was $20 million, with net sales of temporary investments offsetting net purchases of long-term endowment investments.



Economic Factors That Will Affect the Future

The Academic Plan, which was adopted in 2000, drives university spending and budgeting priorities. It focuses on six core strategies that are necessary for Ohio State to become a truly great teaching and research university:

- 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

The colleges are the key focal points to advance the objectives of the Academic Plan. Consequently, the university's decentralized budget system is designed to make sure that at least three quarters of increased annual revenues from tuition and fees and state share of instruction, as well as all indirect cost recoveries, are distributed back to the generating colleges. Major program priorities identified in the Fiscal Year 2006 budget process include faculty and staff compensation, student financial aid, student services, support of interdisciplinary research, support of private giving, and safety and security. The university also allocates central discretionary funds to seed certain initiatives that cross college boundaries and strengthen core support services. For 2006, this funding will include nearly $10 million to support interdisciplinary research, $4 million for safety and security enhancements, and $5 million to support private fundraising by University Development.

Sound finances are crucial to the university's quest to become a truly great teaching and research institution. To assure a continued flow of resources to the activities and functions of the Academic Plan, the university has set the following long-term financial goals:

- A 0.5% to 1.0% operating margin in the General Fund
- A Rainy Day fund of $25 million
- Targeted reserves in selected areas of special risk (e.g. malpractice, utilities, etc.)
- At least 30 days of operating cash
- Debt service at no more than 5% of annual operating expenses and a bond rating of at least "AA"
- Multi-Year commitments of General Funds do not exceed 1% of current-year revenues

In the past year, university management and the Board of Trustees have taken additional steps to protect Ohio State's financial resources, including:

Reviews of Core Administrative Processes -- Core process reviews have identified a number of opportunities to save money and improve efficiencies. Efforts by the Purchasing Office to direct a greater proportion of university purchasing activity through prime-vendor contracts are on track to realize $12-$15 million in savings in 2005, while improvements in the capital construction process realized a $14.5 million savings in calendar 2004 alone. The university also expects savings of $3-$8 million in annual savings from improved management of employee health benefits plans.

More Stringent Guidelines on Debt for Capital Projects -- In 2004, the University's Board of Trustees set guidelines limiting the issuance of new university debt and establishing a $400 million cap for projects to be funded in the university's August 2005 bond issue. In 2005, the board strengthened these policies by expanding its guidance on use of university debt, internal lines of credit and leases. All access to university-issued debt requires pre-approval by the Provost, Senior Vice President for Business and Finance, Treasurer, President, and the Board of Trustees. Internal lines of credit are subject to similar pre-approvals, with board approval required for amounts greater than $5 million. All leases are subject to Office of Business and Finance approval, with board approval required for leases with a present value of $1.5 million or more. These measures are intended to ensure that the university can continue to meet current commitments, take on new commitments consistent with the Academic Plan, and protect the university's "AA" credit rating.

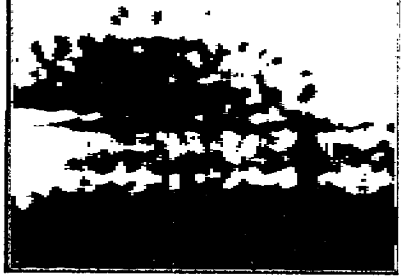
Endowment for Building Maintenance and Renewals -- In FY 2005, the Board of Trustees approved the establishment of an endowment to provide for scheduled maintenance and renewal needs on university buildings in future years. This is funded by an assessment of $0.12 per square foot, currently, on General Funds space. This endowment is expected to be at least $1 million at the end of FY 2006 and will grow significantly in future years.

Enterprise-Wide Risk Management -- In 2005, the university embarked on a review of its enterprise-wide risk management strategies and processes. The international consulting firm of Mercer Oliver Wyman has been retained to assist in this process. A preliminary report is expected in early 2006.

In 2005, the university made continued progress towards its academic goals in a challenging financial environment. Based on what is now known about FY 2006, university management believes that Ohio State will continue to maintain its sound financial position in the year ahead.

Looking ahead to FY 2007 and beyond, university management sees continuing challenges regarding the levels of state support; increased resistance to tuition and fee increases; increased competition from other institutions for the best faculty, staff and students; and continued political uncertainty internationally. Consequently, we are committed to building upon current efforts to diversify our revenue base, reduce our operating and capital costs, and effectively manage our financial risks. By doing so, we feel The Ohio State University will continue to maintain its sound financial position while continuing its progress towards becoming a top-tier public research university.

In 2005, the university made continued progress towards its academic goals in a challenging financial environment.



THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENTS OF NET ASSETS

June 30, 2005 and 2004
(in thousands)

	2005	2004
ASSETS:		
Current Assets:		
Cash and cash equivalents (including bond proceeds restricted for capital expenditures of $67,528 and $161,594, respectively)	$ 74,872	$ 180,446
Temporary investments	508,933	948,124
Accounts receivable, net	373,220	302,519
Notes receivable – current portion, net	9,108	12,056
Pledges receivable – current portion, net	16,402	13,200
Accrued interest receivable	19,641	15,510
Inventories and prepaid expenses	52,399	61,990
Total Current Assets	1,054,575	1,533,845
Noncurrent Assets:		
Restricted cash and cash equivalents	50,203	34,030
Notes receivable, net	62,946	59,324
Pledges receivable, net	22,482	29,758
Endowment investments	1,703,845	1,137,594
Other long-term investments[1]	17,381	14,744
Capital assets, net	2,468,776	2,088,665
Total Noncurrent Assets	4,325,633	3,364,115
Total Assets	$5,380,208	$4,897,960
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	$ 368,127	$ 323,468
Deposits and deferred revenues	154,424	140,647
Commercial paper and current portion of bonds, notes and leases payable	480,580	411,270
Compensated absences – current portion	5,568	6,005
Obligations under annuity and life income agreements – current portion	4,572	4,804
Total Current Liabilities	1,013,271	886,194
Noncurrent Liabilities:		
Bonds, notes and leases payable	396,960	403,336
Compensated absences	73,184	64,513
Obligations under annuity and life income agreements	46,288	47,459
Refundable advances for Federal Perkins loans	29,323	30,132
Other noncurrent liabilities	42,101	39,574
Total Noncurrent Liabilities	587,856	585,014
Total Liabilities	1,601,127	1,471,208
Net Assets:		
Invested in capital assets, net of related debt	1,590,235	1,273,058
Restricted:		
Nonexpendable	1,050,685	966,758
Expendable	462,574	465,002
Unrestricted	675,587	721,934
Total Net Assets	3,779,081	3,426,752
Total Liabilities and Net Assets	$5,380,208	$4,897,960

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

THE OHIO STATE UNIVERSITY

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

Years Ended June 30, 2005 and 2004
(in thousands)

	2005	2004
Operating Revenues:		
Student tuition and fees		
(net of scholarship allowances of $83,161 and $83,430, respectively)	$ 501,941	$ 436,218
Federal grants and contracts	301,817	291,036
State grants and contracts	51,800	47,873
Local grants and contracts	23,225	25,123
Private grants and contracts	157,634	144,942
Sales and services of educational departments	73,044	69,952
Sales and services of auxiliary enterprises		
(net of scholarship allowances of $10,234 and $11,240, respectively)	160,711	163,162
Sales and services of the OSU Health System		
(net of charity care of $41,786 and $30,725, respectively)	1,078,181	932,200
Sales and services of OSU Physicians, Inc.		
(net of charity care of $1,716 and $1,394, respectively)	189,101	112,036
Other operating revenues	46,487	40,367
Total Operating Revenues	2,583,941	2,262,909
Operating Expenses:		
Educational and General:		
Instructional and departmental research	617,890	577,500
Separately budgeted research	333,554	317,310
Public service	95,737	110,750
Academic support	108,489	103,502
Student services	70,020	65,906
Institutional support	93,472	109,331
Operation and maintenance of plant	84,288	73,133
Scholarships and fellowships	54,448	49,336
Auxiliary enterprises	174,206	178,645
OSU Health System	1,071,762	937,748
OSU Physicians, Inc.	169,005	101,778
Depreciation	145,976	141,477
Total Operating Expenses	3,018,847	2,766,416
Operating Loss	(434,906)	(503,507)
Non-operating Revenues (Expenses):		
State share of instruction and line-item appropriations	438,499	433,984
Gifts	65,676	52,500
Net investment income (loss)	154,289	244,013
Interest expense on plant debt	(29,168)	(23,322)
Other non-operating revenues (expenses)	(727)	3,705
Net Non-operating Revenue (Expense)	628,569	710,880
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	193,663	207,373
State capital appropriations	87,305	102,709
Private capital gifts	16,638	27,647
Additions to permanent endowments	54,723	51,478
Increase (Decrease) in Net Assets	352,329	389,207
Net Assets – Beginning of Year	3,426,752	3,037,545
Net Assets – End of Year	$3,779,081	$3,426,752

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

THE OHIO STATE UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005 and 2004
(in thousands)

	2005	2004
Cash Flows from Operating Activities:		
Tuition and fee receipts	$ 388,395	$ 348,477
Grant and contract receipts	521,681	511,419
Receipts for sales and services	1,478,045	1,241,448
Payments to or on behalf of employees	(1,417,472)	(1,266,231)
University employee benefit payments	(333,815)	(319,664)
Payments to vendors for supplies and services	(915,504)	(860,782)
Payments to students and fellows	(50,502)	(42,786)
Student loans issued	(13,177)	(14,534)
Student loans collected	13,062	16,989
Student loan interest and fees collected	1,721	1,992
Other receipts (payments)	45,871	50,475
Net cash provided (used) by operating activities	(281,695)	(333,195)
Cash Flows from Noncapital Financing Activities:		
State share of instruction and line-item appropriations	438,499	433,984
Gift receipts for current use	69,751	68,268
Additions to permanent endowments	54,723	51,478
Drawdowns of federal direct loan proceeds	264,480	244,648
Disbursements of federal direct loans to students	(263,085)	(244,571)
Disbursements of loan proceeds to related organization	(666)	(8,164)
Amounts received for annuity and life income funds	3,296	8,250
Amounts paid to annuitants and life beneficiaries	(4,698)	(4,473)
Agency funds receipts	4,857	4,857
Agency funds disbursements	(4,503)	(4,566)
Net cash provided (used) by noncapital financing activities	562,654	549,711
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	174,622	390,955
State capital appropriations	86,300	91,950
Gift receipts for capital projects	16,638	27,647
Payments for purchase or construction of capital assets	(527,563)	(346,387)
Principal payments on capital debt and leases	(111,916)	(158,037)
Interest payments on capital debt and leases	(28,938)	(19,054)
Net cash provided (used) by capital financing activities	(390,857)	(12,926)

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

	2005	2004
Cash Flows from Investing Activities:		
Net (purchases) sales of temporary investments	439,192	(249,698)
Proceeds from sales and maturities of long-term investments	1,371,130	1,075,162
Investment income (net of related fees)	59,284	57,072
Purchases of long-term investments	(1,849,109)	(1,042,993)
Net cash provided (used) by investing activities	20,497	(160,457)
Net Increase (Decrease) in Cash	(89,401)	43,133
Cash and Cash Equivalents – Beginning of Year	214,476	171,343
Cash and Cash Equivalents – End of Year	$ 125,075	$ 214,476
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	$(434,906)	$(503,507)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:		
Depreciation expense	145,976	141,477
Changes in assets and liabilities:		
Accounts receivable, net	(71,092)	(7,779)
Notes receivable, net	(9)	(3,797)
Accrued interest receivable	2	(201)
Inventories and prepaid expenses	9,591	(266)
Accounts payable and accrued liabilities	45,177	35,898
Deposits and deferred credits	13,386	2,092
Compensated absences	8,234	5,977
Refundable advances for federal Perkins loans	(809)	(1,038)
Other noncurrent liabilities	2,755	(2,051)
Net cash provided (used) by operating activities	$(281,695)	$(333,195)
Non Cash Transactions:		
Equipment	$ 6,784	$ 2,591
Capital lease	(6,784)	(2,591)

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

Notes to Financial Statements

for the Years Ended June 30, 2005 and 2004

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 fund-raising 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
- Twelve 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.
  - The Ohio State University Physicians, Inc.
  - UMC Partners
  - Prologue Research International, Inc.
  - Oval Limited

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

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

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

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

Basis of Accounting

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

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

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

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

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

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

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

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

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

Cash and Investments

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts, and include bond proceeds restricted for capital expenditures. Restricted cash and cash equivalents at June 30, 2005 and 2004, 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 fair value of private equity investments is based on estimated current values and independent appraisals. The weighted average method is used for purposes of determining gains and losses on the sale of investments. The specific identification method is used for purposes of determining gains and losses on the sale of gifted securities.

The university holds investments in limited partnerships, private equity, and other investments, which are carried at estimated fair value provided by the management of these funds. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Methods for determining estimated fair values include discounted cash flows and estimates provided by general partners. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting. As of June 30, 2005, the university has made commitments to limited partnerships totaling $5,600 that have not yet been funded.

Investment in real estate is carried at cost, if purchased, or appraised value at the date of the gift. Holdings in real estate investment trusts (REITs) are carried at estimated fair values. The carrying and market values of real estate at June 30, 2005, are $87,596 and $109,241, 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. 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.

For fiscal year 2004, the university's policy for all endowment funds was to distribute to each named fund income equal to 5% of the average market value per share of the endowment during the past three years.

For fiscal year 2005, the university's policy for existing endowment funds was to distribute to each named fund income equal to 4.75% of the average market value per share of the endowment during the past five years. For new endowment funds, the university's policy is to distribute to each named fund income equal to 4% of the average market value per share of the endowment during the past five years.

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 total $77,551 and $63,479 in fiscal years 2005 and 2004, 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 publications, general stores, and other goods for resale by earnings operations, are valued at the lower of moving average cost or market. The inventories of the hospitals, which consist principally of pharmaceuticals and operating supplies, are valued at cost on a first-in, first-out basis.

Capital Assets and Collections

Capital assets are long-life assets in the service of the university and include land, buildings, improvements, equipment, 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

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. $7,250 and $3,478 of interest was capitalized in the years ended June 30, 2005 and 2004, respectively. The university does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred Revenues

Deferred revenues primarily consist of receipts relating to tuition, room, board, 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 that 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 non- exchange 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.

OSU Physicians Revenue

Net patient service revenue represents amounts received and the estimated net realizable amounts due from patients and third-party payors for services rendered. OSU Physicians provides care to patients under various reimbursable agreements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement.

Management Estimates

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

Newly Issued Accounting Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. The provisions of this statement are effective for periods beginning after December 31, 2004.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The standards in this statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. The provisions of this statement are effective for periods beginning after December 15, 2005.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2006.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits.* This statement establishes standards for accounting and financial reporting for termination benefits provided by employees including early retirement incentives, severance benefits, and other termination-related benefits. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2005.

University management has not yet determined the impact that implementation of GASB Statements 42, 43, 45, and 47 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 2004 comparative information to conform to the 2005 presentation.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2005, the carrying amount of the university's cash and cash equivalents for all funds is $125,075 as compared to bank balances of $167,335. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,004 is covered by federal deposit insurance and $163,331 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

NOTE 3 — INVESTMENTS

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

The university's endowment fund operates with a long-term investment goal of preserving the purchasing power of the principal in a diversified portfolio. Mutual funds held by the university include a wide range of investments, including hedge funds. These hedge funds may include, but are not limited to, investments in equity securities, mutual funds, limited and general partnerships, foreign securities, short sales positions, distressed securities, fixed income securities, options, currencies, commodities, futures, and derivatives. The university's objective for investing in these hedge funds is to provide stable, absolute returns that are uncorrelated to fluctuations in the stock and bond markets.

U.S. government and agency securities are invested through trust agreements with banks that keep the securities in their safekeeping accounts at the Federal Reserve Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the university. Common stocks, corporate bonds, money market instruments, mutual funds, and other investments are invested through trust agreements with banks that 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.

The values of investments at June 30, 2005 and 2004, are as follows:

	2005	2004
Common stock	$ 492,865	$ 431,387
Equity mutual funds	679,019	730,731
U.S. government obligations	89,117	95,088
U.S. government agency obligations	197,539	251,160
Repurchase agreements	82,730	-
Corporate bonds and notes	75,389	78,396
Bond mutual funds	416,494	381,150
Real estate	87,596	60,757
Partnerships and hedge funds	83,954	49,179
Other	25,456	22,614
Total	$ 2,230,159	$ 2,100,462

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, 2005 and 2004, respectively:

	Pooled	Non-Pooled	Total
Temporary investments	$ 461,974	$ 46,959	$ 508,933
Endowment investments	1,672,938	30,907	1,703,845
Other long-term investments	11,881	5,500	17,381
Total 2005	$2,146,793	$83,366	$2,230,159
Total 2004	$1,999,900	$ 100,562	$2,100,462

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2005, the university realized a net gain of $92,548 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net appreciation in the fair value of investments during the year ended June 30, 2005, was $90,908. 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 $1,640.

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	$ 54,339	$ (1,436)	$ 52,903
Endowment investments	756	92,213	92,969
Other long-term investments	8,286	131	8,417
Total 2005	$ 63,381	$ 90,908	$ 154,289
Total 2004	$ 59,658	$ 184,355	$ 244,013

Additional Risk Disclosures for Investments:

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the interest-rate, credit and foreign currency risks associated with deposits and investments.

Interest-rate risk – Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

The maturities of the university's interest-bearing investments at June 30, 2005, are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 20
U.S. government obligations	$ 89,117	$ 3,594	$ 51,340	$ 19,078	$ 15,105
U.S. agency obligations	197,539	15,202	131,101	34,981	16,255
Repurchase agreements	82,730	82,730	-	-	-
Corporate bonds	75,389	3,089	38,975	13,180	20,145
Bond mutual funds	416,494	80,014	174,194	104,017	58,269
Total	$ 861,269	$ 184,629	$ 395,610	$ 171,256	$ 109,774

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

The credit ratings of the university's interest-bearing investments at June 30, 2005, are as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	U.S. Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds
Aaa	$ 655,302	$ 89,117	$ 197,539	$ 82,730	$ 22,646	$ 263,270
Aa	38,293	-	-	-	9,109	29,184
A	90,793	-	-	-	24,844	65,949
Baa	50,224	-	-	-	18,442	31,782
Ba	4,086	-	-	-	348	3,738
B	21,026	-	-	-	-	21,026
Caa	1,545	-	-	-	-	1,545
Ca	-	-	-	-	-	-
C	-	-	-	-	-	-
Total	$ 861,269	$ 89,117	$ 197,539	$ 82,730	$ 75,389	$ 416,494

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2005, the university's exposure to foreign currency risk is as follows:

Currency	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	Other
Australian dollar	$ 417	$ 7,061	$ 156	-	-
Canadian dollar	740	8,982	987	-	-
Euro	7,707	43,109	21,298	$ 234	-
Hong Kong dollar	539	2,002	-	-	-
Japanese yen	5,176	26,337	14,909	-	-
Korean won	-	3,443	-	-	-
Pound sterling	5,829	32,570	2,753	-	-
Swedish krona	300	2,171	-	-	-
Swiss franc	2,243	6,217	-	-	-
Taiwan dollar	-	2,875	-	-	-
Other foreign currencies	719	13,738	831	-	$ 26
Total	$ 23,670	$ 148,505	$ 40,934	$ 234	$ 26

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable at June 30, 2005 and 2004, consist of the following:

	2005	2004
Patient receivables – OSU Health System	$453,599	$ 315,288
Patient receivables – OSU Physicians, Inc.	63,571	49,077
Grant and contract receivables	77,772	65,725
Tuition and fees receivable	47,687	42,699
Receivables for departmental and auxiliary sales and services	38,320	17,860
State and federal receivables	19,427	18,719
	700,376	509,368
Less: Allowances for doubtful accounts	327,156	206,849
	$373,220	$ 302,519

Notes receivable at June 30, 2005, consist primarily of Perkins Loans and are net of an allowance for doubtful accounts of $12,405. Federal capital contributions to the Perkins Loan programs represent advances which are ultimately refundable to the federal government.

In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-exchange Transactions*, the university has recorded $48,318 in non-endowment pledges receivable at June 30, 2005, and a related allowance for doubtful accounts of $9,434.

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 42,202	$ 4,934	$ 3,120	$ 44,016
Improvements other than buildings	193,563	25,925	1,647	217,841
Buildings and fixed equipment	2,281,483	396,167	7,237	2,670,413
Movable equipment and furniture	685,915	114,322	51,854	748,383
Library books	160,540	2,816	2,313	161,043
Construction in progress	377,423	(6,670)	-	370,753
	3,741,126	537,494	66,171	4,212,449
Less: Accumulated depreciation	1,652,461	145,976	54,764	1,743,673
Capital assets, net	$ 2,088,665	$ 391,518	$ 11,407	$ 2,468,776

Capital assets activity for the year ended June 30, 2004, is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 42,025	$ 177	$ -	$ 42,202
Improvements other than buildings	181,959	11,606	2	193,563
Buildings and fixed equipment	2,141,374	141,031	922	2,281,483
Movable equipment and furniture	655,875	67,106	37,066	685,915
Library books	158,472	3,673	1,605	160,540
Construction in progress	237,643	139,780	-	377,423
	3,417,348	363,373	39,595	3,741,126
Less: Accumulated depreciation	1,547,993	141,477	37,009	1,652,461
Capital assets, net	$ 1,869,355	$ 221,896	$ 2,586	$ 2,088,665

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

NOTE 6 – ACCOUNTS PAYABLE, ACCRUED EXPENSES AND SELF-INSURANCE

Accounts payable and accrued expenses at June 30, 2005 and 2004, consist of the following:

	2005	2004
Payables to vendors for supplies and services	$ 137,049	$ 160,937
Accrued compensation and benefits	86,983	74,916
Retirement system contributions payable	24,908	21,790
Self-insurance accruals:		
Medical malpractice	71,549	34,891
Employee health insurance	15,373	15,090
Current portion of amounts due to third-party payers – OSU Health System	9,414	(180)
Other accrued expenses	22,851	16,024
	$ 368,127	$ 323,468

Self-Insurance Programs

The hospitals have established trusteed self-insurance funds for professional medical malpractice liability claims with a $4 million limit per occurrence with no annual aggregate. The university self-insurance funds have insurance in excess of $4 million per occurrence through Oval Limited, a blended component unit of the university. Oval Limited provides coverage with limits of $25 million per occurrence and in the aggregate. A portion of the risks written by Oval Limited to date is reinsured by a single reinsurance company rated A by A.M. Best. The reinsurance company's net retention was 50% of the first $15 million and 100% for the remaining $10 million per occurrence and in the aggregate for the years ended June 30, 2005 and 2004, respectively. The estimated liability and the related contributions to the fund are based upon an independent actuarial determination as of June 30, 2005. OSU Physicians, Inc. participates in the university self-insurance fund for professional medical malpractice liability claims. OSU Physicians premiums incurred and paid to the university were $9,112 and $5,334 during the years ended June 30, 2005 and 2004, respectively.

The hospitals' estimate of professional malpractice liability includes provisions for known claims and actuarially determined estimates of incurred but not reported claims and incidents. This liability at June 30, 2005, of the anticipated future payments on gross claims is estimated at its present value of $44,582 discounted at an estimated rate of 5.0% (university funds) and an additional $26,967 discounted at an estimated rate of 3.0% (Oval Limited).

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $81,697 are more than the recorded liability at June 30, 2005, and the surplus of $10,148 is included in unrestricted net assets.

The university is also self-insured with a stop-loss ceiling of $4,640 for employee health insurance. As of June 30, 2005, $15,373 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, 2003, result from the following activities:

	Malpractice		Health and Life	
	2005	2004	2005	2004
Liability at beginning of fiscal year	$34,891	$28,458	$15,090	$20,337
Current year claims, changes in estimates	38,530	8,012	125,569	84,735
Claim payments	(1,872)	(1,579)	(125,286)	(89,982)
Balance at fiscal year end	$71,549	$34,891	$15,373	$15,090

NOTE 7 — DEBT

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

Debt activity for the year ended June 30, 2005, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series E	$ 22,100		$ 22,100	-	-
Series F	-	$ 150,000		$ 150,000	$ 150,000
Notes:					
Ohio Board of Regents Note, due through 2006	425		213	212	212
Capital One Funding Corporation, due through 2014	2,405		182	2,223	190
Fifth Third Note, due through 2008	9,691	1,403	4,546	6,548	2,948
Fifth Third Line of Credit	300	4,663	4,829	134	134
ESIC New Markets Partners II note		12,000		12,000	-
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	72,150		3,185	68,965	2,410
2002A, due serially through 2031	139,340		6,010	133,330	6,445
2003B, due serially through 2033	226,040		48,695	177,345	6,255
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	47,340		3,800	43,540	43,540
1999B1, due serially through 2029	64,600		4,600	60,000	60,000
1999B2, due 2006	12,100		3,800	8,300	8,300
2001, due serially through 2032	76,950			76,950	76,950
2003C, due serially through 2031	119,255		2,900	116,355	116,355
Capital Lease Obligations	21,910	6,784	7,056	21,638	6,841
	$ 814,606	$ 174,850	$ 111,916	$ 877,540	$ 480,580

Debt activity for the year ended June 30, 2004, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Commercial Paper:					
Series E	$ 70,150	$ 20,450	$ 68,500	$ 22,100	$ 22,100
Notes:					
Ohio Board of Regents Note, due through 2006	637		212	425	213
Capital One Funding Corporation, due through 2014	2,575		170	2,405	177
Fifth Third Note, due through 2008	3,041	8,700	2,050	9,691	4,555
Fifth Third Line of Credit	307	300	307	300	300
2003 Short Term Note Payable	50,965		50,965		
General Receipts Bonds – Fixed Rate:					
1999A, due serially through 2029	75,190		3,040	72,150	3,185
2002A, due serially through 2031	145,075		5,735	139,340	6,010
2003B, due serially through 2033		233,780	7,740	226,040	48,695
General Receipts Bonds – Variable Rate:					
1997, due serially through 2027	50,840		3,500	47,340	47,340
1999B1, due serially through 2029	69,300		4,700	64,600	64,600
1999B2, due 2006	15,600		3,500	12,100	12,100
2001, due serially through 2032	76,950			76,950	76,950
2003C, due serially through 2031		121,295	2,040	119,255	119,255
Capital Lease Obligations	25,603	2,590	6,283	21,910	5,790
	$ 586,233	$ 387,115	$ 158,742	$ 814,606	$ 411,270

Debt obligations are generally callable by the university, bear interest at fixed and variable rates ranging from 0% to 6% and mature at various dates through 2033. Maturities and interest on debt obligations for the next five years and in five-year periods are as follows:

	Commercial Paper, Bonds, and Notes Payable		Capital Leases and Certificates of Participation	
	Principal	Interest	Principal	Interest
2006	$ 473,739	$ 24,139	$ 6,841	$ 727
2007	17,552	17,686	5,024	505
2008	19,588	17,118	2,415	381
2009	18,659	16,470	1,166	323
2010	19,145	15,762	1,022	275
2011-2015	96,208	66,627	3,382	852
2016-2020	78,865	45,889	1,788	138
2021-2025	60,585	26,216		
2026-2030	49,565	12,800		
2031-2033	21,996	1,810		
	$ 855,902	$ 244,517	$ 21,638	$ 3,201

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 $34,336 for future debt service that 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, 2005
Revenue Bonds:		
Series I	$5,951	$1,025

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, 2001, and 2003C 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, 2005, are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	2.329 %
1999 B1	12%	1.994 %
1999 B2	12%	2.157 %
2001	12%	1.365 %
2003 C	12%	1.365 %

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. GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the balance sheet classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation No. 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $305,145 and $320,245 at June 30, 2005 and 2004, 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, 2005, are $46,955 and $21,638 respectively. The original cost and lease obligations related to these capital leases as of June 30, 2004 are $44,225 and $21,910, respectively.

NOTE 8 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the balance sheet. The total rental expense under these agreements was $26,242 and $24,059 for the years ended June 30, 2005 and 2004, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2005, are as follows:

Year Ending June 30,	
2006	$ 17,528
2007	12,077
2008	7,668
2009	5,484
2010	4,472
2011-2015	11,194
2016-2020	3,251
2021-2025	1,141
2026-2030	98
2031-2035	63
2036-2040	63
2041-2045	63
2046-3000	2,501
Total minimum lease payments	$ 65,603

NOTE 9 — COMPENSATED ABSENCES

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

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

Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the university with 10 or more years of service with the state. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 240 hours.

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

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

NOTE 10 — NONCURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2005, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 70,518	$ 13,802	$ 5,568	$ 78,752
Obligations under annuity and life income agreements	52,263	3,169	4,572	50,860
Refundable advances for Federal Perkins Loans	30,132	-	809	29,323
Other non-current liabilities	39,574	4,527	2,000	42,101
	192,487	$ 21,498	$ 12,949	201,036
Less: Current portion	10,809			10,140
	$ 181,678			$ 190,896

Non-current liability activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 64,541	$ 11,982	$ 6,005	$ 70,518
Obligations under annuity and life income agreements	48,485	8,251	4,473	52,263
Refundable advances for Federal Perkins Loans	31,170	-	1,038	30,132
Other non-current liabilities	37,081	4,493	2,000	39,574
	181,277	$ 24,726	$ 13,516	192,487
Less: Current portion	9,496			10,809
	$ 171,781			$ 181,678

Other non-current liabilities at June 30, 2005 and 2004, consist of the following:

	2005	2004
Amounts due to third-party payers - OSU Health System	$ 33,785	$ 29,030
Advance payments under exclusivity agreements	4,000	6,000
Bond premium	4,316	4,544
	$ 42,101	$ 39,574

NOTE 11 — UNRESTRICTED AND RESTRICTED-EXPENDABLE NET ASSETS

Substantially all unrestricted net assets are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment. Major components of unrestricted net assets at June 30, 2005 and 2004, are as follows:

	2005	2004
Educational and general	$ 478,312	$ 414,683
Auxiliary enterprises	(3,017)	(2,061)
OSU Health System	151,835	158,403
Loan funds	2,716	2,705
Unrestricted quasi-endowments	43,651	43,312
Plant	2,090	104,892
	$ 675,587	$ 721,934

Restricted expendable net assets are subject to various purpose or time-based restrictions set forth by donors or granting agencies. Major components of restricted-expendable net assets at June 30, 2005 and 2004, are as follows:

	2005	2004
Current operations	$ 265,434	$ 278,858
Loan funds	41,033	40,927
Restricted quasi-endowments	139,399	130,433
Plant	16,708	14,784
	$ 462,574	$ 465,002

NOTE 12 – 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, 2005 and 2004, are summarized as follows:

Year Ended June 30, 2005	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 554,258	$ 63,632			$ 617,890
Separately budgeted research	235,623	97,931			333,554
Public service	74,229	21,508			95,737
Academic support	91,983	16,506			108,489
Student services	47,266	22,754			70,020
Institutional support	83,554	9,918			93,472
Operation and maintenance of plant	37,477	46,811			84,288
Scholarships and fellowships	2,433	1,513	$ 50,502		54,448
Auxiliary enterprises	85,245	88,961			174,206
OSU Health System	546,105	525,657			1,071,762
OSU Physicians, Inc.	120,008	48,997			169,005
Depreciation				$ 145,976	145,976
Total operating expenses	$ 1,878,181	$ 944,188	$ 50,502	$ 145,976	$ 3,018,847

Year Ended June 30, 2004	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 504,285	$ 73,215			$ 577,500
Separately budgeted research	218,095	99,215			317,310
Public service	79,511	31,239			110,750
Academic support	85,535	17,967			103,502
Student services	44,412	21,494			65,906
Institutional support	97,842	11,489			109,331
Operation and maintenance of plant	32,787	40,347			73,134
Scholarships and fellowships	4,467	2,083	$ 42,786		49,336
Auxiliary enterprises	84,861	93,783			178,644
OSU Health System	478,133	459,615			937,748
OSU Physicians, Inc.	67,074	34,704			101,778
Depreciation				$ 141,477	141,477
Total operating expenses	$ 1,697,002	$ 885,151	$ 42,786	$ 141,477	$ 2,766,416

NOTE 13 — RETIREMENT PLANS

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

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

Defined Benefit Plans

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

STRS Ohio
275 East Broad Street
Columbus, OH 43215-3771
(614) 227-4090
(888) 227-7877
www.strsoh.org

Ohio PERS
277 East Town Street
Columbus, OH 43215-4642
(614) 466-2085
(888) 400-0965
www.opers.org

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

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under 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, 2004, OPERS allocated 4.0% 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, 2003 (the date of the system's latest actuarial review), was $10.5 billion. There were 369,885 active contributing benefit recipients eligible for post-employment benefits as of December 31, 2004.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. HCPP incorporates a cafeteria approach, offering a broad range of health care options which allows benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

STRS Ohio currently provides access to health care coverage to retirees who participated in the deferred benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2004, STRS Ohio allocated employer contributions equal to 1.0% of covered payroll to a Health Care Stabilization Fund (HCSF) from which payments for health care benefits are paid. The balance in the HCSF was $3.1 billion at June 30, 2004.

STRS Ohio expenditures for post-employment benefits during the year ended June 30, 2004, were $268.7 million. There were 111,853 benefit recipients eligible for post-employment benefits at that date.

Post-employment health care benefits are not guaranteed by ORC to be covered under either OPERS or STRS Ohio defined benefit plans.

Defined Contribution Plans

ARP is a defined contribution pension plan. Full-time administrative and professional staff and faculty may choose enrollment in ARP in lieu of OPERS or STRS Ohio. Classified civil service employees are not eligible to participate in ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long-established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement health care benefits.

Combined Plans

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits.

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

Funding Policy

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

	STRS Ohio	OPERS	ARP
Faculty:			
Plan member	10.0%		10.0%
University	14.0%		14.0%*
Staff:			
Plan member		8.5%	8.5%
University		13.31%	13.31%
Law enforcement staff:			
Plan member		10.1%	10.1%
University		16.7%	16.7%

** Employer contributions include 3.5% paid to STRS Ohio.*
The remaining amount, 10.5%, is credited to employee's ARP account.

The university's contributions, which represent 100% of required employer contributions, for the year ended June 30, 2005, and for each of the two preceding years are as follows:

Year Ended June 30,	STRS Ohio Annual Required Contribution	OPERS Annual Required Contribution	ARP Annual Required Contribution
2003	$ 37,345	$ 76,408	$ 21,836
2004	$ 38,155	$ 82,927	$ 23,337
2005	$ 40,597	$ 91,424	$ 27,094

OSU Physicians Retirement Plan

Retirement benefits are provided for the employees of OSU Physicians (OSUP) through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some subsidiaries make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was $9,943 for the year ended June 30, 2005.

NOTE 14 — CAPITAL PROJECT COMMITMENTS

At June 30, 2005, the university is committed to future contractual obligations for capital expenditures of approximately $209,674.

These projects are funded by the following sources:

State appropriations	$110,161
Internal and other sources	99,513
Total	$209,674

NOTE 15 — 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.

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

NOTE 16 — 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 17 — SUBSEQUENT EVENTS

The Ohio State University issued $279,050 in General Receipts Bonds, Series 2005A and $129,980 in Variable Rate Demand General Receipts Bonds, Series 2005B on August 10, 2005. The proceeds of these bond issues will be used for the following purposes: 1) to retire $150,000 of Series F Commercial Paper notes, 2) to refund and retire $55,670 of General Receipts Bond Series 1999A, and 3) to construct and/or renovate a variety of projects including residence halls, administrative and classroom buildings, parking garages, utility, and student services. Both Series A and B Bonds will have annual principal repayments until final maturity on June 1, 2035.

Acknowledgements

The 2005 Financial Report and the included financial statements are prepared by the staff of the Office of the Controller, Division of Accounting.

Michael A. Baker - Financial Systems Analyst

Suzanne M. Chizmar - Chief Accountant

Thomas F. Ewing - Associate Controller

Allan E. Freeman - Cost Analyst

Steven W. Hoffman - University Tax Compliance Specialist

Robert L. Hupp, II - Financial Systems Analyst

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

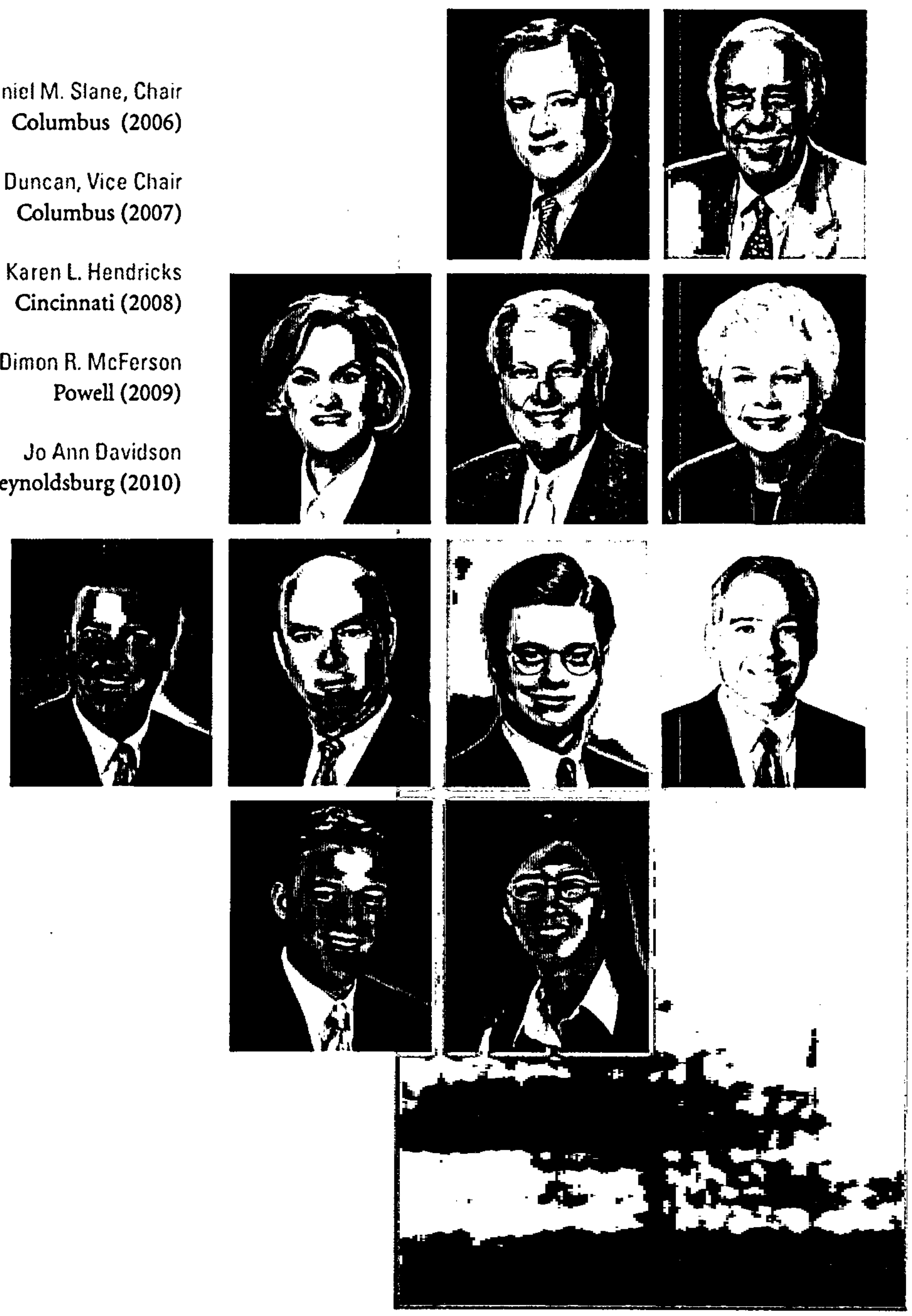
Anne M. Wilcheck - Senior Accountant

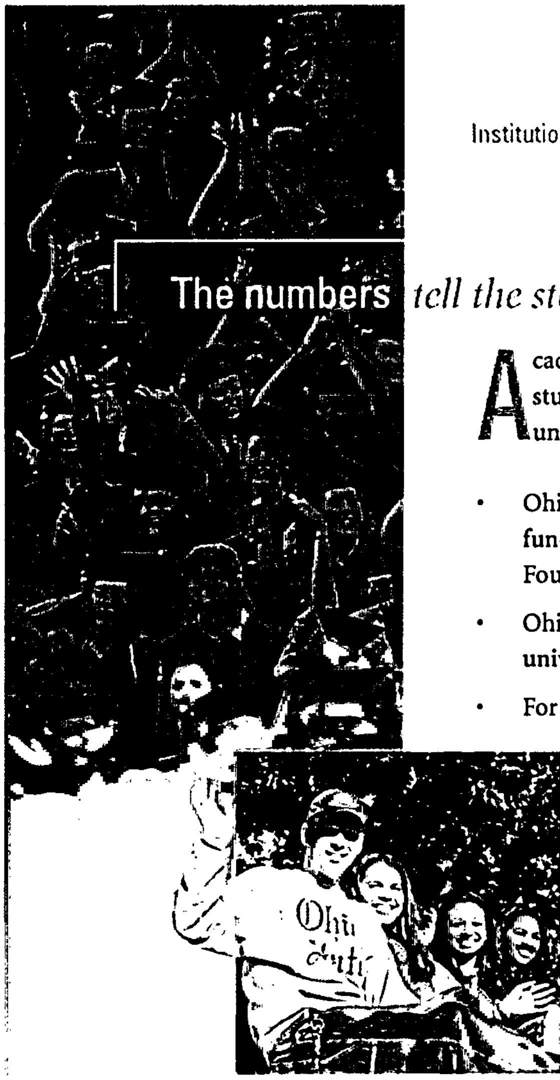
William J. Shkurti - Senior Vice President and Chief Financial Officer

Greta J. Russell - University Controller

2005 Board of Trustees

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





The numbers *tell the story...*

Academic excellence, diversity, renowned faculty, and some of the nation's top students have made Ohio State one of the most recognized and respected universities in the world. In 2005, our numbers told the story:

- Ohio State now ranks among the **top 10 public research universities in sponsored funding and sixth in corporate support**, according to the National Science Foundation.
- Ohio State ranks among *U.S. News & World Report's* **top 25 public universities (21).**
- For the 11th consecutive year, the incoming freshman class was the **best-prepared class in Ohio State's history.**
  - Average ACT score is now 25.8.
  - 39% of the freshmen were in the top 10% of their high school classes.
  - 77% ranked in the top 25% of their high school classes.
  - 16% of the incoming class were students of color, compared to 15.4% in 2004. This reflects a 6% increase in enrollment of new African American students and a nearly 7% increase in Hispanic enrollment.
- **Six-year graduation rate was 68%.** Even though enrollment has remained fairly steady, the size of the graduating classes has been steadily increasing. Each of the last three spring graduating classes has set new records, with 6,882 graduates in 2003; 7,203 in 2004; and a record 7,335 students in 2005.
- **Freshman retention rate was 89.7%.** The national average among public institutions that award Ph.D.s is 77.5%.
- Research grants reached **an all-time high of $552 million in 2005.** The latest government statistics put Ohio State 10th among the nation's public universities in research expenditures.
- For the third straight year, Ohio State has led the country in the number of faculty named as **fellows of the American Association for the Advancement of Science (AAAS).** This year 20 faculty were so recognized. In all, 120 Ohio State faculty members have earned recognition as fellows of the AAAS, making the community of AAAS fellows at Ohio State one of the largest in the country.

- Two new Ohio Eminent Scholars joined our faculty in 2005-06, bringing to 12 the number of Ohio Eminent Scholars hired in the last five years.
- The Ohio State faculty now includes nine members of the National Academy of Sciences, 10 members of the National Academy of Engineering, three members of the Institute of Medicine, and nine members of the American Academy of Arts and Sciences.
- *Journal of Blacks in Higher Education* ranked Ohio State 2nd for the percentage of African Americans in the MBA program, and *Hispanic Outlook* ranked Ohio State among the top 50 best colleges for Hispanic women.
- Ohio State was again chosen as one of the country's 50 best colleges for African Americans by *Black Enterprise* magazine.
- Annually recognized among the nation's best, The Ohio State University Medical Center's five acute-care hospitals and primary care network attract patients from Ohio and around the world. Each year, the Medical Center accommodates 850,000 outpatient visits and $41 million in uncompensated care.
- *U.S. News* ranked many graduate/professional programs among the best in the nation, including Arts (28th), Fisher College of Business (21st), Education (20th), Engineering (26th), Moritz College of Law (39th), Medicine (38th), Nursing (19th), College of Social Work (24th), Veterinary Medicine (6th).
- Ohio State ranked 8th in the nation among public universities in total private support, according to the Council on Aid to Education.

If you would like information about making a gift to support The Ohio State University, please visit www.giveto.osu.edu. Thank you for helping to provide the resources that will allow our numbers to continue to rise.

THE OHIO STATE UNIVERSITY

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THE OHIO STATE UNIVERSITY

Engineering Experiment Station

228 Bolz Hall
2036 Neil Ave.
Columbus, OH 43210-1275

Phone 614-292-2826
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July 7, 2006

To Whom It May Concern:

This letter is in response to a request to describe the sources of funding utilized to cover the costs of operation for the Nuclear Reactor Laboratory:

A portion of the funding is received from The College of Engineering which provides an annual allotment from the general funds received from the University. In addition, costs for various services provided to internal and external customers of the Reactor Laboratory are recovered through invoicing and internal fund transfers. The final source of funding is obtained through state and federal grants provided for various research projects.

If more information is required, please feel free to contact me.

Thank You

Patricia Chrisenberry
Fiscal Administrator
chrisenberry.1@osu.edu
P. 614/292-8312
F. 614/247-4521

FINANCIAL QUALIFICATION

The following information is provided indicating there is reasonable assurance that funds will be available to cover the operating costs for the period of the license renewal plus the estimated costs of decommissioning the facility at some later date.

We have enclosed the most recent biennial Financial Report for The Ohio State University for the years ended June 30, 2005 and 2004. University funding for the OSU Nuclear Reactor Laboratory is administered and distributed by the College of Engineering through the Engineering Experiment Station which has responsibility for the Centers and Laboratories of the College. The Director of the Engineering Experiment Station is the Level 1 individual identified in Chapter 6 of the Technical Specifications and in Chapter 9 of the Safety Analysis Report for the OSURR. This individual is also the Dean of the College of Engineering and ultimately responsible for budget allocation decisions.

The estimated annual cost to operate the OSURR facility for the first five years of the requested period of renewal is $336,000 per year. The underlying assumptions are:

- The renewal period begins July 1, 2006
- There continue to be the same individuals making up 3.6 FTEs
- Costs increase at 4% per year

Since the start of this relicensing process in December of 1999 the OSURR has had three Deans, three Directors, and two Associate Directors. Collectively they have managed the budget process the last six years to assure continued operation of the facility. We anticipate this will continue for the foreseeable future and at least five years after license renewal has been completed. The Ohio State University is a large land grant institution and as such provides teaching, research, and service. The budget sources are reflective o this mission:

- University allocation 40%
- Grants and Research projects 35%
- Reactor services 25%

The above percentages vary from year to year but have been reliable sources for at leas the last twenty years.

In a letter dated July 30, 1990 signed by then Vice President and Provost Fredrick E. Hutchinson the OSURR submitted its Decommissioning Funding Plan as required by 1 CFR50.33. At that point in time we chose the "DECON" method of decommissioning and provided a statement of intent to obtain funds sufficiently in advance of decommissioning to prevent delay in the required activities. These two items remain th same today. The cost estimate to decommission by "DECON" was $706,250 in 1990.

In order to estimate the current cost of decommissioning the reactor by decontamination the following methods/assumptions were made.

1. The cost of fuel shipment was not included as this is considered an operational cost.
2. A qualified staff of at least three individuals is on hand to plan and supervise the process.
3. The decommissioning requires a total of seven years based on the most recent University of Virginia experience.
4. The current charge out rate of $41/hour used for the entire period is not corrected for inflation.
5. The minimum of structural material is removed and only radioactive material waste disposal cost estimates are included.
6. Waste disposal costs are based on the Ohio State University Radiation Safety Section estimates of $287/cuft for low level waste and double that for high level waste with no correction for inflation over the seven year period.
7. We assume there are about 300 cuft of low level waste and about 100 cuft of high level waste.
8. Labor and waste disposal account for 90% of the total decommissioning by decontamination cost estimate.
9. A 60% contingency is added based on the University of Virginia experience.

Our estimate for decommissioning the OSURR by decontamination is $3,438,898.

I. SCOPE:

This instruction outlines the requirements for requalifying reactor operators and senior reactor operators at the OSU-NRL.

II. DISCUSSION:

The RO/SRO requalification program is designed to demonstrate RO/SRO competence and to satisfy the requirements of 10CFR55.53 and 10CFR55.59 For the purpose of this procedure, RO shall refer to any licensed Reactor Operator, SRO shall refer to any licensed Senior Reactor Operator, and Operator shall refer to any licensed operator, reactor, or senior reactor.

III. REFERENCES:

A. 10CFR55.53

B. 10CFR55.59

C. AP-07 Review of Procedures

D. AP-10 OSURR Console Operating Experience

E. Non-Power Reactor Operator Licensing Examiner Standards - NUREG 1478, June 1994.

IV. PRECAUTIONS:

To maintain an active Operator's License at the OSU-NRL one shall:

A. Be the console operator at least once every three months and operate a total of at least 4 hours or complete SRO duties for at least 4 hours. (10CFR 55.53e)

B. Complete the OSU-NRL Annual Requal Exam successfully and in a timely manner. Annual means during each calendar year. Timely means 365+30 days.

C. Renew one's NRC License every six years in a timely manner.

D. Review changes to the Facility License, Technical Specifications, Procedures, Emergency Plan, Security Plan, Facility Design Changes, NRC Notices, and other important Reactor related material in a timely manner. The review of these changes and documents shall be accomplished and verified by following NRL Procedure AP-07 "Review of Procedures."

E. Successfully complete a biennial medical evaluation.

V. PROCEDURES:

A. INTRODUCTION

The Operator Requalification Program is designed to demonstrate Operator and Senior Operator competence, and to satisfy the requirements of 10CFR55.59 for license renewal. The Program embodies the substance of 10CFR55.59, including provisions for an annual written examination, a structured lecture and study program when necessary to correct deficiencies, on the job training and evaluation of licensees, and a records maintenance system.

During each calendar year, a comprehensive operational and written examination shall be administered to all licensed personnel having regular operational responsibility at The Ohio State University Nuclear Reactor Laboratory (NRL).

Subsequent to determining any deficiencies indicated by the comprehensive examination, a retraining program will be initiated which consists of a combination of lectures, self-study by the licensee, tutoring of the licensee, and appropriate examination on the material covered. The final selection of the combination of retraining sessions, will depend upon the performance of the licensee on the written examination.

All study materials used in the Program shall be reviewed to assure they remain current. Study materials shall be collected and made available to all licensees throughout the year.

B. PROGRAM ADMINISTRATION AND REVIEW

The Associate Director of the NRL shall serve as the Training Coordinator, and shall be responsible for the implementation, coordination, and operation of the Operator Requalification Program. The duties of the Training Coordinator shall be designated to another SRO on alternate years. The Training Coordinator or his designee will prepare, administer, grade, and review all examinations and quizzes required by the Program. In this capacity, and since he is a licensed Senior Operator, he will be considered as having completed the examination and retraining program requirements for that year.

C. COMPREHENSIVE ANNUAL WRITTEN EXAMINATION

1. The comprehensive annual written examination (Exam) given to all licensed personnel, will include questions taken from:

A. Reactor Theory, Thermodynamics, and Facility Operating Characteristics.

B. Normal and Emergency Operating Procedures and Radiological Controls.

C. Facility and Radiation Monitoring Systems.

2. The exam should contain at least 10 objective questions from each section.

3. The Exams will be graded, reviewed and retained at the NRL. For each licensee, a review form will be prepared indicating his grade in each Exam category. The areas of deficiency and the retraining to be followed in improving the licensee's competence in that area will then be determined. A grade below 70% in a single category shall require retraining for that licensee in that area of deficiency. An overall score below 70% on the Exam shall require that:

A. The licensee shall be immediately enrolled in a retraining program.

B. Prior to continuing his/her responsibilities of operation of the OSURR, the licensee shall be given an oral exam to verify competence as a console operator.

D. RETRAINING PROGRAM

1. The Retraining Program shall consist of an appropriate combination of:

a. Lectures

b. Self-study of reference materials

c. Tutoring sessions

d. Examination

2. Retraining shall be completed within 90 days and require passing of a written exam on appropriate sections.

E. REACTOR OPERATIONAL EXAM

One reactor operation of each year for each licensee shall be devoted to operator requalification. The Training Coordinator shall be present in the control room during all reactivity control manipulations associated with the operation, and shall evaluate the Operator's performance, competence, knowledge of the reactor system, and knowledge of operating and emergency procedures. If deficiencies are noted, a retraining program will be organized, implemented and conducted within a period of 90 days. The performance evaluation should include:

1. Administrative Topics

2. Control Room Systems

3. Facility Walkthrough

4. Reactor Operation

F. REQUALIFICATION PROGRAM STUDY MATERIALS

A complete set of study and reference materials shall be provided for use by the licensees. It shall be the responsibility of the Training Coordinator to perform a review of the contents of these reference materials to ensure they are adequate and accurately reflect operations, conditions, and design characteristics of the facility. As a minimum, these materials shall include:

1. A suitable general reference text on reactor physics

2. Copies of the operating procedures for the NRL

3. Copies of the Technical Specifications for the OSURR

4. Copies of emergency procedures for the facility

5. Copies of the Reactor Description and Hazards Summary Report

6. Copies of 10CFR19, 20, 50, 55, and 70.

7. Reference material on Health Physics principles and techniques.

G. SPECIAL CONDITIONS

1. Operating Frequency

   a. A monthly review shall be performed to assure that each licensee has participated in at least one reactor operation during each three month period for at least four (4) hours or supervised licensed activities for at least four (4) hours or a combination totaling four (4) hours.

   b. A licensee who does not participate in reactor operation for three or more months shall be given an oral examination on facility and procedure changes, and shall perform a minimum of six (6) hours of supervised reactor operations before being reassigned regular operational duties at the facility, provided he is up to date on the comprehensive annual written examination. These actions are required to meet 10CFR55.53(f) recertification requirements. Results of these examinations shall be retained in the licensee's file.

2. A licensee who does not complete the annual exam shall not be allowed to operate until the exam is successfully completed and graded.

3. Serious deficiencies in either the written exam (< 55% overall) or the operational exam may result in removal of certification until retraining is successfully completed.

H. RECORDS

These records shall be retained at the NRL for the period until the individual's license is renewed:

1. All exams and required re-examinations, which were taken by the licensee during each of the requalification periods.

2. The examination review sheets filled out at the conclusion of the Exam and after any indicated re-exams. There should also be an evaluation sheet completed for each operational exam.

3. Summaries of control manipulations for licensees involved in the requalification program (See AP-10)

4. Certification that each licensee has reviewed changes in the facility license, design, and procedures. (See AP-07)

VI. ATTACHMENTS:

A. Exam Cover Sheet

THE OHIO STATE UNIVERSITY RESEARCH REACTOR

OPERATOR REQUALIFICATION EXAMINATION

Name: ______________________________ License Number: ____________________

Date Administered: _________________

Instructions:

Answers are to be written on the examination page itself. A grade of 70% is required to pass the examination. Three hours are permitted to complete the examination.

Candidate's Declaration:

All work done on this examination is my own. I have neither given nor received aid.

____

Candidate's Signature

Examination Results:

SECTION	SECTION POINTS	SECTION SCORE	PERCENT OF SECTION
A. Reactor Theory, Thermodynamics, Facility Characteristics	10	_____	_____
B. Normal & Emergency Procedures, Radiological Controls	10	_____	_____
C. Facility and Radiation Monitoring Systems	10	_____	_____
TOTAL	30	_____	_____

Evaluation:

_____ Satisfactory (>70%)

_____ Unsatisfactory

Examiner's Signature: __________________________ Date: __________________

PHYSICAL SECURITY PLAN 10CFR73.67

There should not be an approved physical security plan on file with the NRC. In a letter dated December 4, 1995 the NRC issued Amendment 16 to our facility operating license No. R-75. This amendment deleted license condition 3.F which required a physical security plan be maintained because we possess less than ten kilograms of low strategic significance SNM at the facility. We realize that we must still maintain a physical protection system as described in 10CFR73.67. This is accomplished by our Physical Security Implementation Plan for Protection of Special Nuclear Material of Low Strategic Significance based on Regulatory Guide 5.59 as well as our Security Procedures. These documents are routinely reviewed on site by the NRC and have been as recently as 2005.