

*The Ohio State
University Foundation*

*Financial Statements for the
Years Ended June 30, 2005 and 2004,
Additional Information for the Years
Ended June 30, 2005 and 2004, and
Independent Auditors' Report*



**Auditor of State
Betty Montgomery**

Board of Directors
The Ohio State University Foundation
2080 Blankenship Hall
901 Woody Hayes Dr.
Columbus, OH 43210-4016

We have reviewed the *Independent Auditor's Report* of the Ohio State University Foundation, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State University Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 8, 2005

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THE OHIO STATE UNIVERSITY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued or report dated October 10, 2005 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

October 10, 2005

THE OHIO STATE UNIVERSITY FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

The following Management's Discussion and Analysis ("MD&A") of The Ohio State University Foundation's (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2005. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

Overview

This annual report consists of financial statements and notes for the Foundation. The financial statements include a Statements of Net Assets showing the Foundation's assets, liabilities and net assets. Also included are a Statements of Revenue, Expenses and Changes in Net Assets, which shows the various sources of revenue and categorizes expenses by type. The third statement is a Statements of Cash Flows showing cash receipts and disbursements by category, allowing the reader to analyze the items affecting cash and cash flows within the Foundation.

Statements of Net Assets

	2005	2004
ASSETS:		
Current assets	\$ 12,090,205	\$ 6,570,308
Other assets	<u>388,477,307</u>	<u>362,579,429</u>
Total assets	<u>\$400,567,512</u>	<u>\$369,149,737</u>
LIABILITIES:		
Current liabilities	\$ 1,153,046	\$ 1,102,003
Long-term liabilities	<u>50,939,504</u>	<u>53,447,001</u>
Total liabilities	<u>52,092,550</u>	<u>54,549,004</u>
NET ASSETS:		
Unrestricted	5,723,415	7,857,946
Restricted	33,433,746	34,807,398
Endowment	<u>309,317,801</u>	<u>271,935,389</u>
Total net assets	<u>348,474,962</u>	<u>314,600,733</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$400,567,512</u>	<u>\$369,149,737</u>

Assets

Total current assets increased from \$6.6 million at June 30, 2004 to \$12.1 million at June 30, 2005, due primarily to an increase of pledges receivable of 5.5 million.

Total noncurrent assets increased from \$363 million at June 30, 2004 to \$388 million at June 30, 2005 due primarily to the investment in The Ohio State University Endowment Fund, which increased by \$37 million. The investments primarily increased due to new gifts to the Endowment of \$35 million.

Liabilities

Total current liabilities increased from \$1.1 million at June 30, 2004 to \$1.2 million at June 30, 2005, primarily for operation expenses, for which the Foundation borrowed funds from the University to finance.

Total noncurrent liabilities decreased from \$53 million at June 30, 2004 to \$51 million at June 30, 2005 due primarily to a decrease in Deferred Revenue of \$1.9 million.

Net Assets

Net assets increased \$34 million as a result of revenue exceeding operating expenses.

Statements of Revenues, Expenses and Changes in Net Assets

Operating revenues	\$71,348,310	\$ 80,427,981
Operating expenses	<u>37,474,083</u>	<u>24,713,989</u>
Increase in net assets	<u>\$33,874,227</u>	<u>\$ 55,713,992</u>

Operating Revenues

Overall, operating revenues decreased from \$80 million in 2004 to \$71 million in 2005. The primary reason for the decrease is investment performance. A detailed analysis of the components of Operating revenues follows:

Gifts increased from \$39 million in 2004 to \$47 million in 2005.

Interest and dividends increased from \$15 million in 2004 to \$19 million in 2005. The increase is due to the University Endowment Fund distributing more income to the Foundation for its endowment accounts. This is because the Foundation has more endowment accounts at June 30, 2005 and consequently owns more shares of the University's endowment investment pool.

The realized/unrealized gains on marketable securities line item for restricted funds represents the adjustment of those assets to market value at June 30, 2005. The change in carrying value of remainder trusts also represents adjustment of those assets, net of their related liabilities, to market at June 30, 2005. The realized/unrealized gains on marketable securities for endowment funds decreased from \$23 million in 2004 to \$2 million in 2005.

Miscellaneous income is principally funds the University transfers to the Foundation for general support and specific funding items.

Distributions to The Ohio State University increased from \$23 million in 2004 to \$34 million in 2005 due to an increase in endowment income and gifts passed on to the University from the Foundation.

Distributions to gift annuitants represent contractual payments to annuitants. Gift annuity remainder distributions represent distributions to the University for the accounts of annuitants passing away during the year. Gift annuity reserve adjustment reflects the adjustment to market of gift annuity assets, and the adjustment to present value of expected annuity payments. The adjustment also includes the difference between income earned and payments to annuitants.

Statements of Cash Flows

	2005	2004
Operating activities	\$ 30,739,243	\$ 37,593,408
Investing activities	<u>(30,723,394)</u>	<u>(37,621,322)</u>
Net increase (decrease) in cash and cash equivalents	15,849	(27,914)
Cash—beginning of year	<u>149,268</u>	<u>177,182</u>
Cash—end of year	<u>\$ 165,117</u>	<u>\$ 149,268</u>

The major positive cash flow item included in operating activities is cash received from contributors totaling \$47 million. The largest negative cash flow item is distributions to The Ohio State University of \$33 million.

Cash used in investing activities represents purchases of marketable securities totaling \$38 million. This is offset by proceeds from sales of marketable securities of \$4 million and proceeds from the sales of real estate of \$3 million.

THE OHIO STATE UNIVERSITY FOUNDATION

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 165,117	\$ 149,268
Pledges receivable—current portion—net	11,865,067	6,363,144
Accrued interest receivable	34,136	34,120
Other current assets	<u>25,885</u>	<u>23,776</u>
Total current assets	12,090,205	6,570,308
INVESTMENT IN THE OHIO STATE UNIVERSITY ENDOWMENT FUND	300,579,759	263,503,880
PLEDGES RECEIVABLE—Net	13,775,433	22,257,639
CHARITABLE REMAINDER TRUSTS	42,294,786	42,539,459
INVESTMENTS IN MARKETABLE SECURITIES	22,306,700	22,336,436
LIFE INSURANCE POLICIES	3,465,464	3,391,882
INVESTMENT IN REAL ESTATE	4,732,501	6,840,000
RECEIVABLE FROM THE OHIO STATE UNIVERSITY	903,314	1,264,898
OTHER ASSETS	<u>419,350</u>	<u>445,235</u>
TOTAL	<u>\$ 400,567,512</u>	<u>\$ 369,149,737</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES—Advance from The Ohio State University	\$ 1,153,046	\$ 1,102,003
DEFERRED REVENUE	478,610	2,402,977
GIFT ANNUITY LIABILITIES	13,309,504	14,008,447
CHARITABLE REMAINDER TRUST LIABILITY	28,172,840	28,715,459
GIFT ANNUITIES RESERVE	8,978,550	8,309,306
ADVANCE FROM THE OHIO STATE UNIVERSITY	<u> </u>	<u>10,812</u>
Total liabilities	<u>52,092,550</u>	<u>54,549,004</u>
NET ASSETS:		
Unrestricted	5,723,415	7,857,946
Restricted	33,433,746	34,807,398
Endowment	<u>309,317,801</u>	<u>271,935,389</u>
Total net assets	<u>348,474,962</u>	<u>314,600,733</u>
TOTAL	<u>\$ 400,567,512</u>	<u>\$ 369,149,737</u>

See notes to financial statements.

THE OHIO STATE UNIVERSITY FOUNDATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Gifts	\$ 47,177,726	\$ 38,936,457
Interest and dividends	18,594,511	15,337,544
Realized/unrealized gains on marketable securities—net	2,826,740	24,098,839
Realized/unrealized (losses) on real estate	(260,197)	
Gift annuity reserve adjustment	1,713,443	(192,037)
Change in carrying value of remainder trusts	1,051,445	1,487,891
Miscellaneous income	244,642	759,287
	<hr/>	<hr/>
Total operating revenues	71,348,310	80,427,981
OPERATING EXPENSES:		
Distributions to The Ohio State University	33,695,523	22,804,306
Distributions to gift annuitants	1,782,450	1,655,123
Gift annuity remainder distributions	1,648,783	260,648
Salaries	106,980	103,063
Benefits	32,308	29,785
Legal fees	(1,665)	1,665
EDP training, hardware, and software	6,825	7,063
Training and travel expense	2,557	1,902
Office supplies and expenses	1,389	1,452
Real estate taxes, fees, and expenses	27,033	97
Provision for uncollectible pledges	124,703	(240,380)
Other	47,197	89,265
	<hr/>	<hr/>
Total operating expenses	37,474,083	24,713,989
INCREASE IN NET ASSETS	33,874,227	55,713,992
NET ASSETS—Beginning of year—as previously reported	314,600,733	258,886,741
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NET ASSETS—End of year	\$ 348,474,960	\$ 314,600,733
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See notes to financial statements.

THE OHIO STATE UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Cash received from contributors	\$ 47,096,437	\$ 43,776,138
Interest and dividends received	17,697,103	14,761,287
Funding from The Ohio State University	196,944	605,657
Receipt of new gift annuity agreements	1,656,983	2,563,646
Receipt of new trust agreements	144,018	1,083,830
Investment income received on gift annuities	895,301	574,907
Distributions to The Ohio State University	(33,293,706)	(23,621,411)
Income distributions paid to gift annuitants	(1,782,450)	(1,655,123)
Distributions to gift annuity remainderman	(1,648,783)	(260,648)
Payments to vendors for supplies and services	(83,316)	(101,444)
Payments to or on behalf of employees	(106,980)	(103,063)
University employee benefit payments	(32,308)	(29,785)
Other receipts (payments)	_____	(583)
Net cash provided by operating activities	<u>30,739,243</u>	<u>37,593,408</u>
INVESTING ACTIVITIES:		
Proceeds from sales of marketable securities	4,184,810	2,735,833
Purchases of marketable securities	(37,768,007)	(40,357,155)
Proceeds from sale of investments in real estate	2,859,803	16,367,571
Investment of cash in real estate	_____	(1,000,237)
Purchase of real estate	_____	1,000,237
Sale of real estate	_____	(16,367,571)
Net cash used in investing activities	<u>(30,723,394)</u>	<u>(37,621,322)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,849	(27,914)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>149,268</u>	<u>177,182</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 165,117</u>	<u>\$ 149,268</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	\$ 33,874,227	\$ 55,713,992
Adjustments to reconcile operating income to net cash provided by operating activities:		
Unrealized gain on investments	(2,826,741)	(24,098,840)
Unrealized loss on real estate	260,217	_____
Unrealized gain on charitable remainder trusts	(663,778)	(858,402)
Change in CSV of life insurance policies	(73,582)	(177,406)
Total gifts received in real estate	(1,012,501)	(499,763)
Adjustment to gift annuity reserve	(64,660)	452,694
Other	(26,760)	(15,718)
Changes in operating assets and liabilities:		
Decrease in pledges receivable	2,980,283	3,976,815
(Decrease) Increase in deferred revenue	(1,924,367)	1,122,262
Increase in accrued interest receivable and other current assets	(2,107)	(1,350)
Decrease in other assets	25,884	23,776
Decrease (Increase) in receivable from The Ohio State University	361,584	(454,298)
Increase (Decrease) in advance from The Ohio State University	40,231	(362,807)
Decrease in liability for gift annuities	105,688	1,323,687
(Increase) Decrease in gift annuity reserve	(70,727)	994,444
(Increase) Decrease in liability for charitable remainder trusts	(243,648)	454,341
Net cash provided by operating activities	<u>\$ 30,739,243</u>	<u>\$ 37,593,427</u>

See notes to financial statements.

THE OHIO STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. ACCOUNTING POLICIES

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

Organization—The Ohio State University Foundation (the “Foundation”) was incorporated as a not-for-profit organization in the State of Ohio on April 19, 1985, and operates for the benefit of and is a component unit of The Ohio State University (the “University”). The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance 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 and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Pursuant to Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Foundation follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash Equivalents—The Foundation considers all demand deposit accounts and money market funds with a maturity of three months or less at the date of purchase to be cash equivalents. All cash is principally on deposit with one bank.

At June 30, 2005 and 2004, the carrying amount of the Foundation’s deposits with financial institutions was \$100. These deposits were insured by the Federal Deposit Insurance Corporation (Category 1 as defined by GASB). In addition, the Foundation had \$165,017 and \$149,168, respectively, of cash equivalents, which were uncollateralized (Category 3 as defined by GASB).

Fund Accounting—To ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported in the following fund groups:

Unrestricted Fund—The Unrestricted Fund represents funds which can be used by the Foundation for any purpose authorized by the Board of Directors.

Restricted Fund—The Restricted Fund represents funds which are restricted for a specific purpose determined by the donor. The Foundation maintains separate balances in its accounting records to account for the amounts available for such restricted purposes.

Endowment Fund—The Endowment Fund represents contributions in which the donor has stipulated, as a condition of the gift, that the principal be maintained intact and only the investment income of the fund be expended as the donor has specified.

Operating Revenue and Expenses—Operating revenues and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations. The principal operating revenues are derived from gifts, interest and dividends, gains and losses on marketable securities and real estate investments and the change in other assets held by the Foundation. Operating expenses include distributions to the University and gift annuitants and related administrative expenses.

Gifts—Gifts are recorded at their fair market value as of the date received. This includes gifts of real estate for which fair market value is obtained by an independent appraisal.

In accordance with GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, private donations are recognized when all eligibility requirements are met. The Foundation has recorded \$25,640,510 and \$28,620,783, respectively, (net of allowance for uncollectible pledges of approximately \$4,188,000 and \$4,063,000, respectively, at June 30, 2005 and 2004) in pledges receivable as of June 30, 2005 and 2004.

In-Kind Income—The facilities occupied by the Foundation are provided by the University. In addition, the University's Office of University Development and the Office of the Treasurer assist the Foundation in fund raising, gift processing, and accounting. The value of the office space and services provided constitutes additional in-kind income to the Foundation that is not recorded.

Investments—Investments in the University's Endowment Fund are valued at share values reported by the University. The interest in unitrust, annuity trust, and pooled income agreements are invested principally in Vanguard Mutual Funds and are carried at market value. Real estate is recorded at appraised value. Bonds and notes are recorded at values determined by market quotations. Mutual funds are recorded at share values reported by investment carriers. Realized gains or losses from sale or redemption of investments are based upon the cost of the specific investment sold or redeemed. Purchases and sales of investments are reflected on a trade-date basis.

Investment income is recorded in the fund in which the income was earned, except for income derived from endowments. Investment income on Endowment Fund assets is recorded in the fund to which the income was designated by the donor.

Reimbursement Agreement and Resolution—The Foundation and the University entered into an agreement in March 1989, to reimburse costs incurred by the University on behalf of the Foundation and to repay related advances from the University. In connection therewith, the Foundation's Board of Directors approved a resolution in April 1989, authorizing the Foundation to utilize undesignated income earned from unrestricted/restricted funds, as needed, to reimburse the University. On July 7, 2000 the University's Board of Trustees approved a resolution creating a funding plan for University development. Part of this plan includes support to reduce the Foundation's outstanding liability to the University. In 2005 and 2004 a reduction of \$170,560 and \$164,000, respectively, was recognized.

Life Insurance Policies—The Foundation is the owner and beneficiary of certain life insurance policies. The policies classified in the Unrestricted Fund are single premium whole life insurance policies paid by the Foundation. These policies are recorded at their net present value, which was calculated using the risk free interest rate (approximately 4% at June 30, 2005 and 2004). The policies classified in the Restricted Fund are whole life policies including both single premium and annual premium policies for which the donors are paying the premiums. These policies are recorded at their cash surrender value. The increase in the recorded value during the year is recorded in miscellaneous income.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB No. 3*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The standard is effective for periods beginning after June 15, 2004. The Foundation has presented the required information in Note 4.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The standard is effective for periods beginning after December 15, 2004. The Foundation management does not believe the impact of this standard will materially affect the reported financial statements.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The standard is effective for periods beginning after June 15, 2005. The Foundation management does not believe the impact of this standard will materially affect the reported financial statements.

2. INVESTMENTS

Investments in marketable securities and the Foundation endowment at June 30, 2005 and 2004 are as follows:

	2005	2004
Common stock	\$ 100,399,657	\$ 111,025,915
Equity mutual funds	119,379,517	106,467,502
U.S. government obligations	11,766,387	13,929,070
U.S. government agency obligations	7,048,494	16,569,011
Corporate bonds and notes	8,390,377	10,353,338
Bond mutual funds	51,503,319	10,701,131
Real Estate	14,296,857	8,760,280
Cash and Cash equivalents	9,005,582	6,638,287
Other	<u>1,096,269</u>	<u>1,395,782</u>
Total	<u>\$ 322,886,459</u>	<u>\$ 285,840,316</u>

Additional Risk Disclosures on Deposits and Investments:

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

Interest-rate risk—Interest-rate 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 foundation’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 10
U.S. government obligations	\$ 11,766,387	\$ 53,746	\$ 4,248,403	\$ 5,691,948	\$ 1,772,290
U.S. agency obligations	7,048,494	265,155	2,601,635	2,627,094	1,554,610
Corporate bonds	8,390,377	352,024	3,011,319	2,122,745	2,904,289
Bond mutual funds	<u>51,503,319</u>	<u>1,150,339</u>	<u>23,148,768</u>	<u>17,590,199</u>	<u>9,614,013</u>
Total	<u>\$ 78,708,577</u>	<u>\$ 1,821,264</u>	<u>\$ 33,010,125</u>	<u>\$ 28,031,986</u>	<u>\$ 15,845,202</u>

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 foundation’s interest-bearing investments at June 30, 2005 are as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	\$ 51,520,344	\$ 11,766,387	\$ 7,048,494	\$ 1,373,714	\$ 31,331,749
Aa	3,831,120			976,944	2,854,176
A	10,868,542			3,165,437	7,703,105
Baa	7,843,635			2,813,658	5,029,977
Ba	714,149			60,624	653,525
B	3,661,555				3,661,555
Caa	269,232				269,232
Ca					
C					
Total	<u>\$ 78,708,577</u>	<u>\$ 11,766,387</u>	<u>\$ 7,048,494</u>	<u>\$ 8,390,377</u>	<u>\$ 51,503,319</u>

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 foundation’s exposure to foreign currency risk is as follows:

	Common Stocks	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 72,681	\$ 1,229,649	\$ 27,139
Canadian Dollar	128,782	1,564,161	171,879
EURO	1,342,234	7,507,376	3,708,978
Hong Kong Dollar	93,879	348,652	
Japanese Yen	901,424	4,586,577	2,596,284
Korean Won		599,555	
Pound Sterling	1,015,118	5,671,907	479,453
Swedish Krona	52,251	378,092	
Swiss Franc	390,590	1,082,613	
Taiwan Dollar		500,736	
Other Foreign Currencies	<u>125,239</u>	<u>2,392,401</u>	<u>144,741</u>
Total	<u>\$4,122,198</u>	<u>\$25,861,719</u>	<u>\$7,128,474</u>

3. GIFT ANNUITIES

The Foundation has entered into charitable gift annuity agreements which provide, among other matters, that the Foundation shall pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then the unrestricted assets of the Foundation will be utilized to fund future payments.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of the gift, and by recording the present value of the annuities payable, based on the term of the agreement, as a liability. The balance of the gift is recorded as a reserve for future payments.

As of June 30, 2005 and 2004 the assets related to these investments had a fair market value of approximately \$22,306,700 and \$22,336,000, respectively, a present value of annuities payable of approximately \$13,309,504 and \$14,008,000, respectively, and reserves of approximately \$8,979,000 and \$8,309,000, respectively.

4. UNITRUST, ANNUITY TRUST, AND POOLED INCOME AGREEMENTS

An officer of the Foundation, as trustee, has entered into unitrust, annuity trust, and pooled income agreements which provide, among other matters, that the trustee shall pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until the death of the beneficiaries. Upon death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of gift, and by recording the present value of the annuity payable, based on the agreement, as a liability.

5. RELATED PARTY TRANSACTIONS

The University made net advances to the Foundation of approximately \$1,153,000 and \$1,113,000 as of June 30, 2005 and 2004, respectively. The Foundation distributed approximately \$33,696,000 and \$22,804,000 in fiscal year 2005 and 2004, respectively, to the University as directed by donors. The Foundation had receivables from the University of approximately \$903,000 and \$1,265,000 as of June 30, 2005 and 2004, respectively.

The investment in the University's Endowment Fund reflects the Foundation's participation in the central investment program of the University Endowment Fund. The University employs the share method of accounting for pooled investments and for proportionate distribution of income to each fund which participates in the pool.

6. CHANGE IN ACCOUNTING ESTIMATE

During Fiscal Year 2005, management implemented a change in the accounting estimate used to calculate the pledge receivable allowance for uncollectible pledges. At and prior to June 30, 2005, the allowance was based upon the aging of the pledge receivables. For Fiscal Year 2005 and beyond, The Ohio State University will use canceled pledge history to determine the allowance percentage. An allowance percentage will be calculated using a four-year rolling average of canceled pledges divided by net pledges receivable. In addition, specific pledge allowances may also be utilized. These specific allowances will be based upon management's review of large dollar pledges, and can be applied when management believes that there are circumstances that may lead to the pledge not being paid in full.

By using the four-year rolling average, the allowance is higher (more conservative) than the actual allowance booked in previous fiscal years. Management is choosing to use this more conservative calculation for Fiscal Year 2005 and beyond. Management believes that this change in accounting estimate results in more accurate financial reporting. The allowance balance increased from \$4.1 million at June 30, 2004 to \$4.8 million at June 30, 2005.

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

To the Board of Directors of
The Ohio State University Foundation:

We have audited the financial statements of The Ohio State University Foundation (the "Foundation") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more for the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Foundation's management, The Ohio State University and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte & Touche LLP

October 10, 2005

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Ohio State University Foundation
Columbus, Ohio

We have performed the procedures enumerated below, which were agreed to by the management of The Ohio State University Foundation (the "Foundation"), with respect to accounts and related records of the trusts, pooled income agreements, gift annuities, and endowment agreements administered and maintained by the Foundation during the period from July 1, 2004 to June 30, 2005. The Foundation's management is responsible for such accounts and related records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the management of the Foundation. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

Trusts, Pooled Income Agreements, and Gift Annuities

Test of New Donor Agreements

Read each new donor agreement with the Foundation during the period from July 1, 2004 to June 30, 2005 noting the donor's name, type and purpose for the gift, date of the gift, principal amount, beneficiaries and nature of any financially significant donor restrictions. This information was agreed to the Foundation's charitable remainder trust accounts schedule as of June 30, 2005.

Comment—We noted no exceptions.

Proved the mathematical accuracy of five randomly selected pooled income ledgers and gift annuities and one trust.

Comment—We noted no exceptions. Only one trust was selected as no more new agreements were noted on the charitable remainder trust accounts schedule.

Compared income earned on five randomly selected investments as recorded on the selected trustee statements with income credited to the selected trust processor system.

Comment—We noted no exceptions.

Confirmed the investment and valuation of all securities held in safekeeping at June 30, 2005, by direct correspondence with the respective safekeeping institutions.

Comment—We noted no exceptions.

Using confirmations of trust, pooled income and gift annuities investments for five randomly selected investments, pooled income ledgers and gift annuities and one trust, compared the confirmed balances to the Foundation's reconciliation to the summary quarterly report of investments owned at June 30, 2005.

Comment—We noted no exceptions.

Recalculated selected payments made to beneficiaries based on percentage set forth in the randomly selected trust agreement described above.

Comment—We noted no exceptions.

Confirmed directly with 11 (representing approximately 33% of new agreements) randomly selected beneficiaries, payments, as recorded in the trust, pooled income, and gift annuity ledgers.

Comment—We noted no exceptions.

Selected five gift annuity agreements from the last six months of the prior calendar year (i.e. 2004), noting that the following returns (if required) were prepared on a timely basis:

Form K-1
Form 1041A and supporting schedules
Form 5227
Form 1099-R

Comment—We noted no exceptions.

Recalculated the allocation of income earned on selected investments from the trust processor system to five randomly selected deferred gifts.

Comment—We noted no exceptions.

Test of Existing Agreements

Selected five existing deferred gift agreements as of June 30, 2005 and 2004 and performed the following:

1. Read the agreements and compared the administrative provisions of the agreements for consistency.
2. Determined that periodic payouts during the period from July 1, 2004 to June 30, 2005 were consistent with the agreement.
3. Received confirmation from beneficiaries that all periodic payments made to four randomly selected beneficiaries during the period from July 1, 2004 to June 30, 2005 were received by the beneficiary. Performed alternative procedures to confirm that all periodic payments were received for one beneficiary by tracing wire payments to the beneficiaries account and confirming with beneficiaries bank the account was held in the beneficiaries' name.
4. Inquired of the Foundation's Controller who represented to us that tax returns (5227, 1041A and supporting schedules, K-1 and 1099-R) were accurately prepared and filed on time.

5. Noted periodic reports to beneficiaries regarding trust assets during the period from July 1, 2004 to June 30, 2005 agreed with the trust statement for the five selected beneficiaries selected for confirmation of benefit payments in item number three above.

Comment—We noted no exceptions in any of the above procedures.

Test of Matured Agreements

Tested the distribution of remainder interests for all matured agreements during the period from July 1, 2004 to June 30, 2005, by agreeing the distribution of remaindering interests to the appropriate endowment account, as directed by applicable gift agreements.

Comment—We noted no exceptions.

Endowment Agreements

Read five existing authorized endowment agreements as of June 30, 2005 and a random sample of 20 of the new authorized endowment agreements during the period from July 1, 2004 to June 30, 2005 noting the Fund's name, type and purpose of the gift, principal amount, recipient party, disposition of income earned, and nature of any donor restrictions.

For the five existing and 20 newly authorized endowment agreements as defined above, agreed distributions from the Foundation to postings in the Foundation's Financial Accounting System.

Comment—We noted no exceptions.

Agreed 25 randomly selected distributions and expenditures' during the period from July 1, 2004 to June 30, 2005 to expenditures' classification recorded in the Foundation's Financial Accounting System and compared expenditures to the donor's intentions and restrictions as reflected in their endowment agreements.

Comment—We noted no exceptions.

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We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the specific elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of The Ohio State University Foundation and is not intended to be and should not be used by anyone other than this specified party.

Yours truly,



September 5, 2005



**Auditor of State
Betty Montgomery**

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**THE OHIO STATE UNIVERSITY FOUNDATION
FRANKLIN COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2005**