The Ohio State University Foundation

Financial Statements as of and for the Years Ended
June 30, 2010 and 2009, and
Independent Auditors' Reports

Dave Yost · Auditor of State

January 18, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

DAVE YOST
Auditor of State

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Mary Taylor, CPA
Auditor of State

Board of Directors
The Ohio State University Foundation
2040 Blankenship Hall
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Columbus, Ohio 43210

We have reviewed the *Independent Auditors' Report* of The Ohio State University Foundation, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2009 through June 30, 2010. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 4, 2011

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THE OHIO STATE UNIVERSITY FOUNDATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3–5
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009:	
Statements of Net Assets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9–18
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*	19–20

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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, 2010 and 2009, 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 of America. 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. An audit also includes assessing the accounting principles used and the 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, 2010 and 2009, 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 on pages three through five, is not a required part of the basic 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 required 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 our report dated December 10, 2010, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, compliance and results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

December 10, 2010

THE OHIO STATE UNIVERSITY FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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 as of and for the year ended June 30, 2010. 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 Statements of Net Assets showing the Foundation's assets, liabilities, and net assets. Also included are Statements of Revenue, Expenses, and Changes in Net Assets, which show the various sources of revenue and categorizes expenses by type. Lastly, the 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

	2010	2009	2008
ASSETS:			
Current assets	$ 25,692,036	$ 25,386,804	$ 17,312,480
Other assets	490,271,720	415,628,705	523,367,587
TOTAL ASSETS	$ 515,963,756	$ 441,015,509	$ 540,680,067
LIABILITIES:			
Current liabilities	$ 4,958,370	$ 5,321,429	$ 5,687,258
Noncurrent liabilities	34,772,342	36,428,324	44,783,857
Total liabilities	39,730,712	41,749,753	50,471,115
NET ASSETS:			
Unrestricted	3,486,451	3,607,121	3,247,172
Restricted	53,957,435	39,728,520	35,334,699
Endowment	418,789,158	355,930,115	451,627,081
Total net assets	476,233,044	399,265,756	490,208,952
TOTAL LIABILITIES AND NET ASSETS	$ 515,963,756	$ 441,015,509	$ 540,680,067

ASSETS

Total current assets increased from $25 million at June 30, 2009, to $ 26 million at June 30, 2010, primarily due to an increase of accounts receivable and cash and cash equivalents by $1.5 million and $0.7 million respectively. This increase was offset by a decrease in pledges of $1.7 million.

Total other assets increased from $416 million at June 30, 2009, to $490 million at June 30, 2010, due primarily to the overall financial market performance of investments of which increased the balance by $61 million and an increase of $14 million for pledges receivable.

LIABILITIES

Total current liabilities were comparable for 2009 and 2010 at $5 million.

Total noncurrent liabilities decreased from $36 million at June 30, 2009, to $35 million at June 30, 2010, which is comparable to prior year.

NET ASSETS

Net assets increased $77 million as a result of revenues exceeding operating expenses.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2010	2009	2008
Operating revenues	$ 138,790,225	$ (39,365,361)	$ 54,634,252
Operating expenses	61,822,937	51,577,835	48,721,681
Increase (decrease) in net assets	$ 76,967,288	$ (90,943,196)	$ 5,912,571

OPERATING REVENUES

Overall, operating revenues increased from $(39) million in 2009 to $139 million in 2010. The primary reason for the increase was investment performance. A detailed analysis of the components of operating revenues is as follows:

Gifts increased from $62 million in 2009 to $83 million in 2010.

Interest and dividends were comparable for 2009 and 2010.

The realized/unrealized gain(loss) represents the adjustment of investments to market value at June 30, 2010. The net adjustment to market was a loss of $133 million in 2009 and a gain of $34 million in 2010, primarily due to market conditions.

The gift annuity reserve adjustment decreased from a gain of $6 million as of June 30, 2009, to a gain of $1 million as of June 30, 2010, due to market changes in the gift annuity assets, which are recorded within investments.

The change in the carrying value of remainder trusts decreased $4 million from 2009 to 2010.

Miscellaneous income was comparable overall for 2009 and 2010.

Distributions to The Ohio State University, not including payments received on accounts receivable and payments toward advances, increased from $46 million in 2009 to $54 million in 2010 due to an increase in gifts passed on to The Ohio State University from the Foundation.

Distributions to gift annuitants represent contractual payments to annuitants and the amount is comparable between June 30, 2010 and 2009.

Gift annuity remainder distributions are payments to The Ohio State University for the accounts of annuitants passing away during the year. These expenses were comparable between 2010 and 2009.

STATEMENTS OF CASH FLOWS

	2010	2009	2008
Operating activities	$ 28,442,669	$ 27,404,520	$ 59,878,679
Investing activities	(26,896,306)	(26,915,482)	(61,369,785)
Financing activities	(820,015)	171,357	1,554,349
Net increase in cash and cash equivalents	726,348	660,395	63,243
Cash and cash equivalents — beginning of year	828,151	167,756	104,513
Cash and cash equivalents — end of year	$ 1,554,499	$ 828,151	$ 167,756

The major positive cash flow item included in operating activities is cash received from contributors totaling $66 million. The largest negative cash flow item is distributions to The Ohio State University of $53 million. Total distributions to The Ohio State University include distributions from donors and payments on advances net of cash received on accounts receivable.

Cash used in investing activities represents purchases of investments totaling $32 million. This is offset by proceeds from sales of investments of $5 million.

2009 — 2008 HIGHLIGHTS

The decrease in net assets from $6 million to $(91) million is primarily the result of decreased operating revenues. Operating revenues decreased $94 million due to investment performance (loss of $66.7 million) and $26 million due to less gifts. Operating expenses and the cash flow activities were comparable between 2009 and 2008.

THE OHIO STATE UNIVERSITY FOUNDATION

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,554,499	$ 828,151
Pledges receivable — current portion — net	21,326,939	23,088,245
Accounts receivable	2,707,122	1,274,579
Accrued interest receivable	21,194	28,952
Charitable remainder trusts	64,282	148,877
Other assets	18,000	18,000
Total current assets	25,692,036	25,386,804
INVESTMENTS — Long term:		
The Ohio State University Long-Term Investment Pool	410,819,592	348,393,132
Marketable securities	16,837,077	17,448,831
Charitable remainder trusts	32,071,693	32,570,500
Life insurance policies	4,014,026	4,604,911
Real estate		375,000
Total investments — long term	463,742,388	403,392,374
PLEDGES RECEIVABLE — Net	21,157,505	6,851,563
CAPITAL ASSETS — Net	4,535,834	4,763,351
RECEIVABLE FROM THE OHIO STATE UNIVERSITY	835,993	621,417
TOTAL	$515,963,756	$441,015,509
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Charitable remainder trust liability	$ 2,053,716	$ 1,800,147
Gift annuity liabilities	1,301,499	1,282,081
Gift annuity reserve	368,491	223,426
Advance from The Ohio State University	288,722	236,669
Accrued liabilities	40,251	53,400
Note payable	905,691	1,725,706
Total current liabilities	4,958,370	5,321,429
DEFERRED REVENUE	699,789	1,367,719
CHARITABLE REMAINDER TRUST LIABILITY	18,674,448	19,092,817
GIFT ANNUITY LIABILITIES	11,834,535	13,598,075
GIFT ANNUITY RESERVE	3,350,685	2,369,713
ADVANCE FROM THE OHIO STATE UNIVERSITY	212,885	
Total liabilities	39,730,712	41,749,753
NET ASSETS:		
Unrestricted	3,486,451	3,607,121
Restricted	53,957,435	39,728,520
Endowment	418,789,158	355,930,115
Total net assets	476,233,044	399,265,756
TOTAL	$515,963,756	$441,015,509

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, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Gifts	$ 82,672,912	$ 62,344,671
Net investment loss:		
Interest and dividends	21,393,594	21,260,588
Realized/unrealized gain (loss)	33,759,433	(133,391,045)
Gift annuity reserve adjustment	1,111,371	6,191,598
Change in carrying value of remainder trusts	173,800	3,679,548
Total net investment gain (loss)	56,438,198	(102,259,311)
Miscellaneous (expense) income	(320,885)	549,279
Total operating revenues	138,790,225	(39,365,361)
OPERATING EXPENSES:		
Distributions to The Ohio State University	53,527,071	46,354,222
Distributions to gift annuitants	1,724,270	1,853,313
Gift annuity remainder distributions	1,387,928	1,007,403
Salaries and benefits	1,040,492	517,842
Professional services, audit, and legal fees	363,183	339,877
Provision for uncollectible pledges	2,064,857	966,730
Depreciation	227,517	225,058
Interest on debt	41,230	64,427
Rent and utilities expense	147,312	
Other	1,299,077	248,963
Total operating expenses	61,822,937	51,577,835
INCREASE (DECREASE) IN NET ASSETS	76,967,288	(90,943,196)
NET ASSETS — Beginning of year	399,265,756	490,208,952
NET ASSETS — End of year	$ 476,233,044	$ 399,265,756

See notes to financial statements.

THE OHIO STATE UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES:		
Cash received from contributors	$ 65,837,946	$ 55,556,695
Interest and dividends received	21,419,512	20,831,347
Funding from The Ohio State University	270,000	270,000
Receipt of new gift annuity agreements	425,479	647,146
Receipt of new trust agreements	9,000	(12,929)
Investment income received on gift annuities	(25,918)	411,241
Distributions to The Ohio State University	(53,476,709)	(46,317,910)
Income distributions paid to gift annuitants	(1,724,270)	(1,853,313)
Distributions to gift annuity remainderman	(1,387,928)	(1,007,403)
Payments to vendors for supplies and services	(1,863,951)	(602,512)
Payments to or on behalf of employees	(997,228)	(473,147)
University employee benefit payments	(43,264)	(44,695)
Net cash provided by operating activities	28,442,669	27,404,520
INVESTING ACTIVITIES:		
Proceeds from sales of investments	5,100,801	4,164,393
Purchases of investments	(31,997,107)	(30,983,629)
Payments for capital assets		(96,246)
Net cash used in investing activities	(26,896,306)	(26,915,482)
FINANCING ACTIVITIES — (Payments) advances on note payable	(820,015)	171,357
INCREASE IN CASH AND CASH EQUIVALENTS	726,348	660,395
CASH AND CASH EQUIVALENTS — Beginning of year	828,151	167,756
CASH AND CASH EQUIVALENTS — End of year	$ 1,554,499	$ 828,151
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 76,967,288	$ (90,943,196)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	227,517	225,058
Realized/unrealized (gain)loss on investments	(33,759,432)	133,391,045
Change in cash surrender value of life insurance policies	590,885	(279,279)
Total gifts received in real estate	(125,000)	(890,000)
Other	(67,808)	325,275
Changes in assets and liabilities:		
Pledges receivable	(12,544,636)	(4,322,307)
Accounts receivable	(1,432,543)	(1,274,579)
Deferred revenue	(667,930)	665,639
Accrued interest receivable		13,817
Other current assets		(18,000)
Receivable from The Ohio State University	(214,576)	69,405
Advance from The Ohio State University	264,938	(33,093)
Accrued liabilities	(13,149)	50,755
Gift annuities liabilities	(1,744,122)	166,877
Gift annuity reserve	1,126,037	(6,050,420)
Charitable remainder trust liability	(164,800)	(3,692,477)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 28,442,669	$ 27,404,520

See notes to financial statements.

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 Presentation — The accompanying financial statements include the accounts of the Foundation, Clifton Holdings, LLC ("Clifton"), and Pelotonia LLC (formerly known as NetJames Holdings LLC) ("Pelotonia"). Clifton was created in 2007, and Pelotonia was created in 2008. Both are component units, which are legally separate organizations for which the Foundation is financially accountable. 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 Foundation) 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

- An organization is fiscally dependent on the primary government

Clifton and Pelotonia are financially accountable using the criteria set forth in GASB Statement No. 14 and they exclusively benefit the Foundation. As a result, the transactions and balances for Clifton and Pelotonia have been blended with the Foundation.

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 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 and 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 two banks, with a third bank holding cash equivalents within investments.

At June 30, 2010 and 2009, the carrying amount of the Foundation's cash and cash equivalents with financial institutions was $1,554,499 and $828,151, respectively of which $549,528 and $719,178 is covered by FDIC Insurance. Amounts remaining uncollateralized total $1,004,970 and $108,973 as of June 30, 2010 and 2009, respectively.

Pledges Receivable — The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. The Foundation reduces pledges receivable to estimated net realizable value by recording an allowance for uncollectible pledges. The allowance is estimated using a four-year rolling average of canceled pledges divided by net pledges receivable. For the years ended June 30, 2010 and 2009, the Foundation recorded an allowance against pledges receivable of $7,141,800 and $5,076,900, respectively.

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 that can be used by the Foundation for any purpose authorized by the Board of Directors.

Restricted Fund — The restricted fund represents funds that 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.

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, private donations are recognized when all eligibility requirements are met. The Foundation has recorded $42,484,444 and $29,939,808, in pledges receivable, net as of June 30, 2010 and 2009, respectively.

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 Financial Services 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 Ohio State University Long-Term Investment Pool ("University Long-Term Investment Pool") are valued at share values reported by the University. The University Long-Term Investment Pool holds investments in limited partnerships, private equity, and other investments, which are carried at 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 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.

All endowments are invested in the University Long-Term Investment Pool. For donor-restricted endowments, the Uniform Prudent 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 appreciation (depreciation), is retained in the University Long-Term Investment Pool.

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. For fiscal year 2009, annual distribution was based on the average market value per share of the University Long-Term Investment Pool over the previous five-year period multiplied by a stated rate. For funds established prior to June 30, 2004, the stated rate was 4.5%. For funds established after June 30, 2004, the stated rate was 4%. To minimize volatility in the year-to-year distribution amounts, a "collar" was also in place to ensure that distribution per share did not increase greater than 3% a year or decrease more than 1% a year.

After the significant market decline in fiscal year 2009, the Board of Trustees of the University revised the distribution policy. In fiscal year 2010, the two pools (named funds established before or after the June 30, 2004, cutoff date) were combined into one, resulting in one payout rate for all funds. The collar was eliminated and replaced with a temporary one-year floor limiting the total distribution decline to 3% for any college or area. Based on these two methods, undistributed gains were transferred from the University Long-Term Investment Pool to current funds. These transfers total $21,200,000 and $20,262,000 in fiscal years 2010 and 2009, respectively.

Beginning in fiscal year 2011, annual distribution per share will equal 4.25% of the average market value per share of the Long-Term Investment Pool over the most recent seven year period.

At June 30, 2010, the market value of the Foundation's gifted endowments was approximately $410,820,000, which is $96,179,000 below the historical dollar value of $506,999,000. At June 30, 2009, the market value of the Foundation's gifted endowments was $348,393,000, which is approximately $127,176,000 below the historical dollar value of $475,569,000.

The interest in unitrust, annuity trust, and pooled income agreements (marketable securities and charitable remainder trust) are carried at market value. Mutual funds are recorded at share values reported by investment carriers. Bonds and notes are recorded at values determined by market quotations. 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.

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 based on last five-year average (approximately 4% for both years). 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.

Real estate is recorded at the appraised value.

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.

Capital Assets — Net — Capital assets, net of accumulated depreciation, is the residence used by the University president for housing.

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. A reduction of $270,000 was recognized in 2010 and in 2009.

New Accounting Standards - In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This Statement amends existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

Foundation management has not yet determined the impact that implementation of GASB Statement No. 59 will have on the Foundation's financial statements.

2. INVESTMENTS

Investments as of June 30, 2010 and 2009, were as follows:

	2010	2009
Common stock	$ 68,055,440	$ 49,615,387
Equity mutual funds	29,250,237	71,502,328
U.S. government obligations	5,372,416	7,709,357
U.S. government agency obligations	129,228	10,241,887
Repurchase agreements	217,645	
Corporate bonds and notes	17,038,280	20,661,029
Bond mutual funds	47,660,901	50,051,789
International bonds	120,793	106,232
Partnerships and hedge funds	270,407,772	151,511,926
Real estate	1,020,827	1,512,103
Cash and cash equivalents	20,519,105	35,986,441
Other	4,014,026	4,642,772
Total	$463,806,670	$403,541,251

Interest Rate Risk — Interest rate or 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 Foundation's interest-bearing investments as of June 30, 2010, were as follows:

		Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. government obligations	$ 5,372,416	$ 318,343	$ 1,900,366	$ 1,749,634	$ 1,404,073
U.S. agency obligations	129,228		129,228		
Repurchase agreement	217,645	217,645			
Corporate bonds and notes	17,038,280	71,977	4,473,212	11,310,269	1,182,822
Bond mutual funds	47,660,901	2,309,493	23,576,242	16,492,898	5,282,268
International bonds	120,793			120,793	
Total	$ 70,539,263	$ 2,917,458	$ 30,079,048	$ 29,673,594	$ 7,869,163

The maturities of the Foundation's interest-bearing investments as of June 30, 2009, were as follows:

		Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. government obligations	$ 7,709,357	$ 322,773	$ 1,416,488	$ 5,311,875	$ 658,221
U.S. agency obligations	10,241,887	695,971	111,491	3,166,174	6,268,251
Corporate bonds and notes	20,661,029	301,603	4,300,664	14,246,271	1,812,491
Bond mutual funds	50,051,789	(572,640)	22,845,698	21,820,987	5,957,744
International bonds	106,232			106,232	
Total	$ 88,770,294	$ 747,707	$ 28,674,341	$ 44,651,539	$ 14,696,707

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 as of June 30, 2010, were as follows:

Credit Rating (Moody's)	Total	U.S. Government Agency Obligations	Repurchase Agreement	Corporate Bonds	Bond Mutal Funds	International Bonds
Aaa	$ 41,395,651	$ 5,459,434	$ 217,645	$ 285,595	$ 35,432,977	$ -
Aa	4,665,932			1,530,158	3,135,774	
A	11,195,697			7,069,149	4,126,548	
Baa	12,157,724	42,210		7,634,062	4,360,659	120,793
Ba	666,900			253,012	413,888	
B	42,495			42,495		
Caa	90,785				90,785	
Unrated	324,079			223,809	100,270	
Total	$ 70,539,263	$ 5,501,644	$ 217,645	$ 17,038,280	$ 47,660,901	$ 120,793

The credit ratings of the Foundation's interest-bearing investments as of June 30, 2009, were as follows:

Credit Rating (Moody's)	Total	U.S. Government and Agency Obligations	Corporate Bonds	Bond Mutual Funds	International Bonds
Aaa	$ 57,391,696	$ 17,951,244	$ 976,719	$ 38,463,733	$ -
Aa	6,836,372		2,674,021	4,162,351	
A	16,197,571		10,614,226	5,583,345	
Baa	7,522,206		5,798,181	1,617,793	106,232
Ba	816,309		591,742	224,567	
Unrated	6,140		6,140		
Total	$ 88,770,294	$ 17,951,244	$ 20,661,029	$ 50,051,789	$ 106,232

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. The Foundation's exposure to foreign currency risk as of June 30, 2010, was as follows:

	Common Stocks	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds	International Bonds	Private Equity
Australian Dollar	$ 509,123	$ 288,076	$ 113,694	$ 285,285	$ -	$ 4,770,100
Brazilian Real	1,130,588	187,249	1,955,577	169		
Canadian Dollar	1,876,357		1,780,215			
Chilean Peso		19,205				
Chinese Yuan		230,461				
Colombian Peso		4,801				
Czech Republic Koruna	176,449	4,801				
Danish Krone	210,241	38,410				
Egyptian Pound	175,321	4,801				
EURO	6,780,223	1,056,279	3,180,689	(22)		2,749,338
Hong Kong Dollar	1,321,821	91,224				
Hungarian Forint	37,342	4,801				
Indian Rupee	565,823	100,827				
Indonesian Rupiah	759,360	28,808				
Israeli Shekel	114,151	33,609				
Japanese Yen	4,360,985	835,421	618,101			
Malaysian Ringgit	41,856	38,410				
Moroccan Dirham						
Mexican Peso	219,999	52,814	748,227		120,793	
New Taiwan Dollar	1,294,238	134,436				
New Turkish Lira	277,341	19,205				
New Zealand Dollar	39,821	4,801				
Norwegian Kroner	299,732	24,006				
Peruvian Nuevo Sol		9,603				
Philippine Peso		4,801				
Polish Zloty	34,559	14,404	48,797			
Pound Sterling	3,823,991	748,998	1,002,520			
Russian Ruble		76,820				
Singapore Dollar	205,745	62,416				
South African Rand	1,581,387	86,423				
South Korean Won	2,555,945					
Swedish Krona	705,147	105,628				
Swiss Franc	933,388	288,076				
Thailand Baht	397,901	19,205				
	$ 30,428,833	$ 4,618,820	$ 9,447,819	$ 285,432	$ 120,793	$ 7,519,438

The Foundation's exposure to foreign currency risk as of June 30, 2009, was as follows:

	Common Stocks	Equity Mutual Funds	Bond Mutual Funds	International Bonds
Australian Dollar	$ 616,523	$ 1,480,457	$ 29,633	$ -
Brazilian Real	479,401	664,603	235,963	
Canadian Dollar	1,577,299	1,630,834	117,132	
Chilean Peso		69,762		
Chinese Yuan		874,360		
Colombian Peso		16,060		
Czech Republic Koruna		21,113		
Danish Krone	161,897	176,547	41,840	
Egyptian Pound		24,325		
EURO	8,312,825	6,487,800	3,645,369	
Hong Kong Dollar	1,542,231	488,222		
Hungarian Forint	57,956	25,931		
Indian Rupee		334,828		
Indonesian Rupiah	35,737	74,815		
Israeli Shekel	22,635	136,548		
Japanese Yen	5,576,132	4,873,964	2,290,691	
Malaysian Ringgit	69,927	136,548		
Moroccan Dirham		14,454		
Mexican Peso	82,624	201,492		106,232
New Taiwan Dollar	630,180	529,896		
New Zealand Dollar	95,408	27,217	14	
Norwegian Kroner	444,597	146,101	12,768	
Peruvian Nuevo Sol		24,325		
Philippine Peso		21,113		
Polish Zloty	37,941	51,861	40,574	
Pound Sterling	4,625,252	4,247,191	394,396	
Russian Ruble		282,731		
Singapore Dollar	326,736	279,993		
South African Rand	528,037	333,222		
South Korean Won	1,262,800	562,251		
Swedish Krona	564,672	498,396	32,976	
Swiss Franc	978,120	1,521,439	35,192	
Thailand Baht	326,510	64,944		
Turkish Lira		61,732		
	$ 28,355,440	$ 26,385,075	$ 6,876,548	$ 106,232

3. THE OHIO STATE UNIVERSITY LONG-TERM INVESTMENT POOL

The University Long-Term Investment Pool is a unitized investment pool consisting of gifted endowment funds of the university, gifted endowment funds of the Foundation, and operating funds which have been internally designated to function as endowments (referred to below as the Operating Endowment). The University Long-Term Investment Pool operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for an annual distribution. In April 2009, the University's Board of Trustees approved the following thematic asset classes, allocation ranges, and benchmarks for the Long-Term Investment Pool:

Asset Class	Range	Benchmark
Market Exposure	10–50%	50%(Russell 3000) + 50%(EAFE)
Risk Reducers	25–50%	90 Day T-Bill + 4%
Return Enhancers	10–25%	120%(80% Russell 3000 + 20% EM Index)
Inflation Hedges	10–25%	75%(CPI+4%) + 25%(NACREIF Real Estate Index)

The Market Exposure category includes domestic equities, international equities, and long biased long/short managers. The Risk Reducers category includes fixed income and low volatility absolute return managers. The Return Enhancers category includes private equities, higher volatility hedge funds, and emerging market equities. The Inflation Hedges category includes real estate, timber, energy, TIPS, agriculture, commodities, and infrastructure.

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.

4. 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, 2010 and 2009, the assets related to these investments had a fair market value of \$16,821,000 and \$17,433,000, respectively, a present value of annuities payable of \$13,136,000 and \$14,880,000, respectively, and reserves of \$3,719,000 and \$2,593,000, respectively.

5. 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 and by recording the present value of the annuity payable, based on the agreement, as a liability.

6. NOTE PAYABLE

In December 2007, Clifton entered into a revolving credit agreement of $2,500,000 with a bank, due on demand and requiring monthly interest payments based on the daily fluctuating London InterBank Offered Rate, plus 2.25%. The note payable is guaranteed by the Foundation and is collateralized by the assets of Clifton and the Foundation. At June 30, 2010 and 2009, the note payable had an outstanding balance of $905,691 and $1,725,706, respectively.

7. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of $502,000 and $237,000 as of June 30, 2010 and 2009, respectively. The Foundation distributed $53,527,000 and $46,354,000, in fiscal years 2010 and 2009, respectively, to the University as directed by donors. The Foundation had receivables from the University of $836,000 and $621,000, as of June 30, 2010 and 2009, respectively.

The Foundation invests its gifted endowment funds in the University Long-Term Investment Pool. 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.

Clifton entered into an agreement on May 1, 2008, to lease the president's house to the University for $1 a year.

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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
Columbus, Ohio

We have audited the financial statements of The Ohio State University Foundation (the "Foundation") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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 of America.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

December 10, 2010

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Mary Taylor, CPA
Auditor of State

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
JANUARY 18, 2011

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