

The Ohio State University Foundation

(A Component Unit of The Ohio State University)

Consolidated Financial Statements

As of and for the Years ended June 30, 2018 and 2017

and Report of Independent Auditors on Internal

Control over Financial Reporting and on Compliance

and Other Matters Based on an Audit Performed in

Accordance with *Government Auditing Standards*



Dave Yost • Auditor of State

Board of Directors
The Ohio State University Foundation
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the *Report of Independent Auditor's* of The Ohio State University Foundation, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2017 through June 30, 2018. 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 "Dave Yost".

Dave Yost
Auditor of State

November 16, 2018

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The Ohio State University Foundation

Index

June 30, 2018 and 2017

	Page(s)
Report of Independent Auditors	1-2
Management's Discussion and Analysis (Unaudited)	3-8
Consolidated Financial Statements	
Consolidated Statements of Net Position	9
Consolidated Statements of Revenue, Expenses and Other Changes in Net Position	10
Consolidated Statements of Cash Flows	11-12
Notes to Consolidated Financial Statements	13-29
Other Information on The Ohio State University's Long Term Investment Pool (Unaudited).....	30-31
Report of Independent Auditors 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	32-33

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the consolidated financial statements of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, appearing on pages 9 to 29, which consist of the consolidated statements of net position as of June 30, 2018 and June 30, 2017, the related consolidated statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and June 30, 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Foundation changed the manner in which it accounts for irrevocable split-interest agreements in 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 8 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we have obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The accompanying other information on the long-term investment pool on pages 30 to 31 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

November 6, 2018

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2018

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, 2018, with comparative information for the years ended June 30, 2017 and June 30, 2016. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

The following sections provide additional details on the Foundation's 2018 financial results and a look ahead at significant economic conditions that are expected to affect the Foundation in the future.

About The Ohio State University Foundation

The Foundation is The Ohio State University's (the "University") fundraising and gift-receiving organization. It was founded in 1985 as a non-profit, tax-exempt organization that advances the mission of the University by pursuing and securing private support to benefit the University students, faculty, patients, research, programs, and facilities.

About the Financial Statements

The following financial statements include all balances for the Foundation and the consolidated financial results for two legally separate entities, Clifton Holdings, LLC and Pelotonia, LLC ("Pelotonia"), which are subject to control by the Foundation. The Statement of Net Position is the Foundation's balance sheet. It reflects the Foundation's assets, liabilities, and net position at June 30, 2018, with comparative information as of June 30, 2017. The Statement of Revenue, Expenses, and Other Changes in Net Position is the Foundation's income statement and reflects its various sources of revenue and categories of expense for the year ended June 30, 2018, with comparative information for Fiscal Year 2017. The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2018, with comparative information for Fiscal Year 2017.

The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Statements of Net Position

	2018	2017	2016
Cash and cash equivalents	\$ 22,859,141	\$ 4,363,690	\$ 2,494,541
Pledges receivable — current portion — net	26,576,671	31,930,280	35,395,104
Other current assets	12,137,352	10,942,421	10,057,774
Total current assets	<u>61,573,164</u>	<u>47,236,391</u>	<u>47,947,419</u>
The Ohio State University Long-Term Investment Pool	\$ 958,749,667	\$ 877,261,330	\$ 763,331,888
Pledges receivable, net	73,848,183	74,082,540	65,359,935
Other noncurrent assets	55,505,634	54,383,055	53,994,476
Total noncurrent assets	<u>1,088,103,484</u>	<u>1,005,726,925</u>	<u>882,686,299</u>
Total assets	<u>\$ 1,149,676,648</u>	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>
Irrevocable split-interest agreements—current	\$ 3,095,192	\$ 3,360,531	\$ 3,677,114
Distribution payable to The Ohio State University	19,744,393	-	-
Other current liabilities	2,246,192	2,240,680	1,752,319
Total current liabilities	<u>25,085,777</u>	<u>5,601,211</u>	<u>5,429,433</u>
Irrevocable split-interest agreements—noncurrent	\$ 29,632,705	\$ 30,688,767	\$ 27,386,912
Unearned revenue	15,354,476	17,336,076	16,263,529
Other noncurrent liabilities	-	-	1,791,122
Total noncurrent liabilities	<u>44,987,181</u>	<u>48,024,843</u>	<u>45,441,563</u>
Total liabilities	<u>\$ 70,072,958</u>	<u>\$ 53,626,054</u>	<u>\$ 50,870,996</u>
Deferred inflows	\$ 14,843,243	\$ 12,719,327	\$ 12,222,961
Net investment in capital assets	3,137,008	3,271,170	3,518,380
Restricted			
Nonexpendable-Endowment	877,276,138	817,017,485	735,369,073
Expendable	170,694,975	153,379,369	117,690,545
Unrestricted	13,652,326	12,949,911	10,961,763
Total net position	<u>1,064,760,447</u>	<u>986,617,935</u>	<u>867,539,761</u>
Total liabilities and net position	<u>\$ 1,149,676,648</u>	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>

During the year ended June 30, 2018, **cash and cash equivalents** increased \$19 million, to \$23 million, primarily due to a change in the timing of transfers of gift funds by Pelotonia. The Statement of Cash Flows, which is discussed in more detail below, provides additional information on sources and uses of Foundation cash.

The Foundation receives pledges and bequests of financial support from individuals, corporations and other foundations. For current-use and capital gifts, **pledges receivable** and gift revenue are recognized when an unconditional promise to pay is received and all eligibility requirements have been met. Total pledges receivable decreased \$6 million, to \$100 million at June 30, 2018, reflecting decreases in overall fundraising activity. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

Other current assets consist primarily of receivables due from Pelotonia riders for the annual bicycle tour. These receivables increased \$2 million, to \$12 million at June 30, 2018.

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2018

The Foundation's 2,818 named endowment funds and 269 pending endowment funds are invested in **The Ohio State University Long-Term Investment Pool**. Each named fund is assigned a number of shares in the pool based on the value of the gifts, income-to-principal transfers or transfers of operating funds to that named fund. The fair value of Foundation investments in the Long-Term Investment Pool increased \$82 million, to \$959 million at June 30, 2018, primarily due to \$68 million of net investment income and \$54 million of net principal additions. Additional information on Foundation net investment income is provided below. Additional information on the University's Long-Term Investment Pool is provided on pages 30 and 31.

Other noncurrent assets consist primarily of investments held under unitrust, annuity trust and gift annuity agreements. The fair value of these investments was relatively stable in 2018, increasing \$1 million, to \$47 million at June 30, 2018.

University leadership is in the process of restructuring Pelotonia, LLC into a new 501(c)(3) organization. As part of this restructuring, the Foundation and Pelotonia entered into an Amended and Restated Memorandum of Understanding (MOU) related to the remittance of funds raised by Pelotonia riders. Under the Amended and Restated MOU, Pelotonia will "temporarily retain those gifts received directly by Pelotonia between July 1, 2017 and the closing of the Restructuring Transaction". All "Retained Funds" remain exclusively restricted to supporting cancer research at the university and are to be transferred to the university upon its request. No later than two years from the closing date of the Restructuring Transaction, Pelotonia will transfer all "Retained Funds". At June 30, 2018, these **distributions payable to The Ohio State University** totaled \$20 million.

Based on the proposed structure of the new 501(c)(3) entity, Foundation management anticipates that the new entity will not be consolidated into the OSU Foundation's financial reports. Instead, it will be a component unit of the university.

The Foundation enters into charitable remainder trust and gift annuity agreements with donors, under which the Foundation agrees to pay periodic fixed payments to beneficiaries during their lifetimes. In fiscal year 2018, the Foundation implemented a new accounting standard related to these agreements (GASB Statement No. 81, *Irrevocable Split-Interest Agreements*) that generally defers the recognition of revenue and expenses until the death of the beneficiary. The cumulative effect of adopting GASB Statement No. 81 was a \$12 million reduction in the Foundation's net position as of July 1, 2016. At June 30, 2018, **liabilities and deferred inflows related to irrevocable split-interest agreements** totaled \$33 million and \$15 million, respectively, and in 2017 totaled \$34 million and \$13 million, respectively.

Unearned revenue consists primarily of amounts received from donors that are subject to eligibility requirements. These unearned revenues decreased \$2 million, to \$15 million at June 30, 2018. These amounts will be recognized as gift revenue when the related eligibility requirements are met.

The Foundation's total **net position** increased \$78 million, to \$1.06 billion at June 30, 2018, primarily due to \$80 million in net investment income, 2 million income from irrevocable split-interest agreements and \$239 million of gifts in 2018, offset by \$223 million of distributions to the University and other expenses of \$21 million. Additional information on Foundation revenues and expenses is provided below.

Prior-Year Highlights

The fair value of Foundation investments in the Long-Term Investment Pool increased \$114 million, to \$877 million at June 30, 2017, primarily due to \$103 million of net investment income. Total pledges

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2018

receivable increased \$5 million, to \$106 million at June 30, 2017, reflecting increases in overall fundraising activity. Other Foundation assets and liabilities were relatively stable in 2017.

Statements of Revenues, Expenses and Other Changes in Net Position

	2018	2017	2016
Operating revenues			
Current use gifts	\$ 167,843,368	\$ 179,912,140	\$ 156,840,198
Private capital gifts	16,012,005	26,771,098	10,774,517
Income from irrevocable split-interest agreements	2,086,542	722,292	1,458,688
Miscellaneous income	1,712,993	1,885,054	1,845,520
Total operating revenues	<u>187,654,908</u>	<u>209,290,584</u>	<u>170,918,923</u>
Operating expenses			
Distributions to OSU			
Pass through gifts	188,559,895	205,061,468	170,259,054
Endowment distributions	37,111,218	34,315,899	30,008,699
Transfers to endowment principal	(4,547,477)	(5,480,586)	(3,577,208)
Other distributions	2,201,626	1,550,778	1,596,389
Total distributions to OSU	<u>223,325,262</u>	<u>235,447,559</u>	<u>198,286,934</u>
Other expenses	9,739,723	9,519,843	8,260,869
Total operating expenses	<u>233,064,985</u>	<u>244,967,402</u>	<u>206,547,803</u>
Net operating loss	(45,410,077)	(35,676,818)	(35,628,880)
Nonoperating revenues			
Net Investment income (loss)	<u>67,974,034</u>	<u>102,296,914</u>	<u>(23,321,877)</u>
Income before other changes in net position	22,563,957	66,620,096	(58,950,757)
Other changes in net position			
Permanent endowment gifts	<u>55,578,555</u>	<u>52,458,078</u>	<u>64,537,150</u>
Increase in net position	78,142,512	119,078,174	5,586,393
Net position - beginning of year	986,617,935	867,539,761	878,280,141
Cumulative effect of accounting change	<u>-</u>	<u>-</u>	<u>(16,326,773)</u>
Net position - end of year	<u>\$ 1,064,760,447</u>	<u>\$ 986,617,935</u>	<u>\$ 867,539,761</u>

Total **gift revenues** decreased \$20 million, to \$239 million in 2018 due to the end of the *But for Ohio State* fundraising campaign in fiscal year 2017. Decreases in current use and capital gifts were partially offset by a \$3 million increase in endowment gifts. Several colleges and support units received gifts in excess of \$1 million in 2018, including Veterinary Medicine, the Comprehensive Cancer Center, the Cancer Hospital and Research Institute, the College of Medicine, the College of Arts and Sciences, the School of Music, the College of Engineering, the College of Nursing, WOSU Public Media, the Mansfield

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2018

Campus and the Department of Athletics. Over 269,000 alumni and friends made gifts to the University, up from 267,000 in 2017.

Net investment income decreased \$34 million, to \$68 million in 2018 due to lower investment returns. Foundation investments in the University Long-Term Investment Pool yielded \$68 million in net investment income, which includes interest, dividends, increases in fair value and investment management expenses.

The fiscal year saw volatility return to the financial markets over concerns of tighter U.S. monetary policy creating a flatter yield curve, the ten-year treasury reaching a 3% yield, U.S. partisan politics, nuclear tensions with North Korea, a strong U.S. dollar, increasing world oil prices and trade policy disruptions with China, Europe and NAFTA. Offsetting this backdrop was an impactful U.S. fiscal policy, tax reform and deregulation leading to high business confidence, higher corporate earnings, repatriation of corporate cash, rising tax receipts, corporate stock buybacks and rising capex, all supported an improving corporate environment and a strong U.S. real economy. The S&P 500 Index responded with a +14.4% return for the fiscal year. Solid U.S. employment with increasing 401k values led to higher consumer confidence and helped support the U.S. consumer centric economy. The Barclays U.S. Aggregate Bond index returned -0.4% reflecting a relatively flat year for the broader U.S. bond market. The U.S. Federal Reserve separated itself from other world central banks by making the first major move to raise interest rates, which was not followed by other central banks due to weaker international economies. The ACWI equity index-ex the US, which represents the world equity indexes excluding the U.S., returned a lower +7.8% reflecting their less than robust economies.

The University's Long-Term Investment Pool (LTIP) returned +7.7% for the fiscal year ending June 30, 2018. The LTIP outperformed on a relative basis to each of its individual benchmarks for two of its three major asset classes; global equities and fixed income, while real assets underperformed. The LTIP is a diversified portfolio of investments designed to provide steady growth in a risk controlled structure.

In 2018, the Foundation implemented a change in presentation for investment management expenses. These expenses -- which totaled \$12 million and \$11 million in 2018 and 2017, respectively, and had previously been reported as Long Term Investment Pool expense -- are now being netted against investment income. Foundation management determined that the use of this acceptable alternative accounting principle is preferable, because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns.

The Foundation distributes current-use and private capital gifts to the university upon receipt. These **pass-through gift distributions** decreased \$16 million, to \$189 million in 2018, reflecting decreases in gift revenues. The Foundation holds endowment gifts and transfers **endowment distributions** to university departments, to be spent for their restricted purposes. These endowment distributions increased \$3 million, to \$37 million in 2018. The annual distribution per share for 2018 was 4.5% of the average fair value per share of Long-Term Investment Pool over the most recent seven-year period.

Other expenses consist primarily of expenses charged to the Foundation's shares in the University Long-Term Investment Pool, salaries and benefits, professional services, audit and legal fees. These expenses were stable at \$10 million in 2018.

Prior-Year Highlights

The Foundation's total net position increased \$119 million, to \$987 million at June 30, 2017, primarily due to \$102 million in net investment income. The University's Long-Term Investment Pool (LTIP) returned +14.5% for the fiscal year ending June 30, 2017. Total gift revenues increased \$27 million, to

The Ohio State University Foundation
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

\$259 million in 2017, reflecting strong growth in current-use and private capital gifts. 2017 was a record fundraising year for Ohio State. Over 267,000 alumni and friends made gifts to the University, up from 246,000 in 2016.

Statements of Cash Flows

	2018	2017	2016
Operating activities	\$ 31,618,645	\$ 11,697,562	\$ 31,342,629
Investing activities	<u>(13,123,194)</u>	<u>(9,828,413)</u>	<u>(32,125,465)</u>
Net increase (decrease) in cash and cash equivalents	18,495,451	1,869,149	(782,836)
Cash and cash equivalents, beginning of year	<u>4,363,690</u>	<u>2,494,541</u>	<u>3,277,377</u>
Cash and cash equivalents, end of year	<u>\$ 22,859,141</u>	<u>\$ 4,363,690</u>	<u>\$ 2,494,541</u>

Total Foundation cash and cash equivalents increased \$18 million in 2018. Net cash provided by operating activities increased \$20 million to \$32 million. Gift receipts were down \$12 million, but this decrease was offset by a \$32 million decrease in distributions to the University. Net cash used for investing activities decreased \$3 million resulting in a negative \$13 million of activity, reflecting net purchases and sales of investments.

Current Environment

The University’s comprehensive *But for Ohio State* fundraising campaign concluded in September 2016, surpassing its goal and raising more than \$3 billion to advance the University’s mission. Throughout the campaign, volunteers were exceptionally engaged, devoting substantial time and sharing their strategic thinking to make the University stronger. Mindful of this confluence of advantages, assets and momentum, and through careful review and consideration, the University determined it would immediately undertake planning for another comprehensive campaign.

Planning for a new campaign involves partnerships between deans and directors of academic programs, volunteer and university leaders, and staff. The University continues to listen carefully to alumni and donor feedback, to demonstrate the impact that their investments make possible, and to connect alumni, friends, parents and supporters to ensure the best possible opportunities exist for future generations of students, researchers and the citizens of Ohio. Through the work of the university and its extraordinary volunteers, new levels of philanthropy will be realized by inspiring and engaging members of Buckeye Nation as full partners in the University’s success.

The Ohio State University Foundation
Consolidated Statements of Net Position
As of June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 22,859,141	\$ 4,363,690
Pledges receivable — current portion — net	26,576,671	31,930,280
Accounts receivable	11,599,639	9,872,120
Accrued interest receivable	2,438	2,072
Marketable securities	3,544	99,419
Charitable remainder trusts	371,080	824,013
Other assets	160,651	144,797
Total current assets	<u>61,573,164</u>	<u>47,236,391</u>
Noncurrent Assets		
The Ohio State University Long-Term Investment Pool	958,749,667	877,261,330
Marketable securities	19,443,758	18,912,321
Investment Partnerships	138,527	212,612
Charitable remainder trusts	27,752,758	26,932,872
Life insurance policies	1,324,962	1,345,459
Real estate	3,708,621	3,708,621
Pledges receivable, net	73,848,183	74,082,540
Capital assets, net	3,137,008	3,271,170
Total noncurrent assets	<u>1,088,103,484</u>	<u>1,005,726,925</u>
Total assets	<u>\$ 1,149,676,648</u>	<u>\$ 1,052,963,316</u>
Liabilities, Deferred Inflows and Net Position		
Current liabilities		
Irrevocable split-interest agreements	\$ 3,095,192	\$ 3,360,531
Advance from The Ohio State University	2,164,008	1,852,876
Distribution payable to The Ohio State University	19,744,393	-
Accrued liabilities	82,184	387,804
Total current liabilities	<u>25,085,777</u>	<u>5,601,211</u>
Noncurrent Liabilities		
Unearned revenue	15,354,476	17,336,076
Irrevocable split-interest agreements	29,632,705	30,688,767
Total noncurrent Liabilities	<u>44,987,181</u>	<u>48,024,843</u>
Total liabilities	<u>70,072,958</u>	<u>53,626,054</u>
Deferred Inflows	14,843,243	12,719,327
Net Position		
Net investment in capital assets	3,137,008	3,271,170
Restricted		
Nonexpendable - Endowment	877,276,138	817,017,485
Expendable	170,694,975	153,379,369
Unrestricted	13,652,326	12,949,911
Total net position	<u>1,064,760,447</u>	<u>986,617,935</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,149,676,648</u>	<u>\$ 1,052,963,316</u>

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

The Ohio State University Foundation
Consolidated Statements of Revenues, Expenses and
Other Changes in Net Position
For the years ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Current use gifts	167,843,368	179,912,140
Private capital gifts	16,012,005	26,771,098
Income from irrevocable split-interest agreements	2,086,542	722,292
Miscellaneous income	1,712,993	1,885,054
Total operating revenues	<u>187,654,908</u>	<u>209,290,584</u>
Operating Expenses		
Distributions to The Ohio State University		
Pass through gifts	188,559,895	205,061,468
Endowment distributions	37,111,218	34,315,899
Transfers to endowment principal	(4,547,477)	(5,480,586)
Other distributions	2,201,626	1,550,778
Total Distributions to The Ohio State University	<u>223,325,262</u>	<u>235,447,559</u>
Salaries and benefits	2,633,108	2,176,191
Long-Term Investment Pool expense	3,397,319	3,593,632
Professional services, audit and legal fees	2,091,394	887,663
(Release)/Provision for uncollectible pledges	(1,150,931)	151,194
Depreciation	241,922	247,210
Rent and utilities expense	111,601	92,590
Other	2,415,310	2,371,363
Total operating expenses	<u>233,064,985</u>	<u>244,967,402</u>
Net operating loss	(45,410,077)	(35,676,818)
Non-operating Revenues		
Net investment income		
Interest and dividends, net of expenses	18,185,209	16,307,323
Increase in fair value of investments	61,624,055	97,303,197
Investment expenses	(11,835,230)	(11,313,606)
Total net investment income	<u>67,974,034</u>	<u>102,296,914</u>
Income before other changes in net position	22,563,957	66,620,096
Other Changes in Net Position		
Permanent endowment gifts	<u>55,578,555</u>	<u>52,458,078</u>
Increase in net position	78,142,512	119,078,174
Net Position - Beginning of year:		
Beginning of year, as previously reported	986,617,935	879,762,722
Cumulative effect of accounting change	-	(12,222,961)
Beginning of year, as restated	<u>986,617,935</u>	<u>867,539,761</u>
Net position, end of year	<u>\$ 1,064,760,447</u>	<u>\$ 986,617,935</u>

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

The Ohio State University Foundation
Consolidated Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Cash received from contributors	\$ 242,463,706	\$ 254,384,271
Receipt of new gift annuity agreements	2,451,418	1,317,299
Receipt of new trust agreements	1,089,702	46,015
Distributions to The Ohio State University	(203,580,869)	(235,447,559)
Income distributions paid to gift annuitants	(1,732,612)	(1,699,753)
Payments to vendors for supplies and services	(8,468,360)	(6,856,480)
Payments to or on behalf of employees	(2,598,091)	(2,141,726)
University employee benefit payments	(35,017)	(34,465)
Advance from The Ohio State University	311,132	305,212
Other receipts	1,717,636	1,824,748
Net cash provided by operating activities	<u>31,618,645</u>	<u>11,697,562</u>
Investing Activities		
Proceeds from sales of investments	56,370,490	52,538,356
Purchases of investments	(76,666,850)	(69,230,999)
Interest and dividends received, net of expenses	6,349,979	4,993,717
Interest Income from irrevocable split-interest agreements	930,947	1,870,513
Payment for capital assets	(107,760)	-
Net cash provided (used) by investing activities	<u>(13,123,194)</u>	<u>(9,828,413)</u>
Financing Activities		
Increase (decrease) in cash and cash equivalents	18,495,451	1,869,149
Cash and cash equivalents, beginning of year	4,363,690	2,494,541
Cash and cash equivalents, end of year	<u>\$ 22,859,141</u>	<u>\$ 4,363,690</u>

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

The Ohio State University Foundation
Consolidated Statements of Cash Flows, Cont'd
For the years ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Net Operating Loss to Net Cash		
Provided by Operating Activities		
Net operating loss	\$ (45,410,077)	\$ (35,676,818)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	241,922	247,210
Permanent endowment gifts	55,578,555	52,458,078
Change in fair value of irrevocable split-interest agreements	(296,352)	(993,630)
Interest income from irrevocable split-interest agreements	(930,947)	(1,870,513)
Change in cash surrender value of life insurance policies	20,497	(32,179)
Total gifts received in real estate and partnerships	-	(427,000)
Pledge allowance	(1,150,931)	151,194
Changes in assets and liabilities		
Pledges receivable	6,738,897	(5,408,975)
Accounts receivable	(1,727,519)	6,383
Unearned revenue	(1,981,600)	1,072,547
Accrued interest receivable	(366)	20,515
Other current assets	(15,854)	(28,127)
Advance from The Ohio State University	311,132	305,212
Distribution payable to The Ohio State University	19,744,393	-
Accrued liabilities	(305,620)	183,149
Gift annuities liabilities	(751,658)	(763,096)
Gift annuity reserve	43,556	110,052
Charitable remainder trust liability	(613,299)	1,847,194
Deferred Inflows	2,123,916	496,366
Net cash provided by operating activities	<u>\$ 31,618,645</u>	<u>\$ 11,697,562</u>
Non Cash Transactions		
Stock Gifts	\$ 18,238,461	\$ 21,723,172
Increase (decrease) in fair value of investments	61,920,407	98,296,827
Change in carrying value of remainder trusts	(1,703,001)	(1,801,179)

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

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 Foundation is the single member of two LLC's, Clifton Holdings, LLC ("Clifton"), and Pelotonia LLC ("Pelotonia"). Clifton was created in 2007 to own and maintain the University President's residence. Pelotonia, which was created in 2008, organizes annual bicycle tours to raise funds to support cancer research. These LLC's are included with the Foundation's consolidated financial statements in a blended presentation. University leadership is in the process of restructuring Pelotonia, LLC into a new 501(c)(3) organization. It is anticipated that the assets in the LLC will be transferred to the new 501(c)(3) organization sometime in FY2019. The Foundation, as a component unit of the University, is included in the University's consolidated financial statements in a blended presentation.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Basis of Accounting

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The preparation of financial statements 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.

Cash and Cash Equivalents

The Foundation considers all demand deposit accounts and money market funds with a maturity of three months or less to be cash equivalents except for the money market funds held as part of the gift annuities and charitable remainder trusts agreements at the date of purchase. All cash is principally on deposit with two banks.

At June 30, 2018, the carrying amount of the Foundation's cash and cash equivalents with financial institutions was \$22,859,141 of which \$20,625,161 is covered by federal deposit insurance. The amount remaining of \$2,233,980 is uncollateralized. At June 30, 2017, the carrying amount of the Foundation's cash and cash equivalents with financial institutions was \$4,363,690 of which \$1,042,405 is covered by federal deposit insurance. The amount remaining of \$3,321,285 is uncollateralized.

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

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising. For the years ended June 30, 2018 and 2017 the Foundation recorded an allowance against pledges receivable of \$3,616,489 and \$4,767,420 respectively.

Net Position

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

- **Net investment in capital assets**

Capital assets, net of accumulated depreciation, cash restricted for capital projects and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets

- **Restricted - Nonexpendable**

Amounts subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the University. These assets primarily consist of the Foundation's permanent endowments.

- **Restricted - Expendable**

Amounts 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.

- **Unrestricted**

Amounts which are not subject to externally-imposed stipulations.

Gifts

Gifts are recorded at their fair value as of the date received. This includes gifts of real estate for which fair 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 pledges receivable, net of allowances, of \$100,424,854 and \$106,012,820 as of June 30, 2018 and 2017, 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 Business and Finance 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, but is not reported in the Foundation's financial statements.

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Investments

All 2,818 Board-established named Foundation endowments and 269 Foundation pending funds are invested in The Ohio State University Long-Term Investment Pool ("University Long-Term Investment Pool"). Each named fund is assigned a number of shares in the University Long-Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), 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. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the University Long-Term Investment Pool, and the associated net position is classified as restricted- expendable unless otherwise restricted by the donor. The depreciation on non-expendable endowment funds is recorded as a reduction to restricted non-expendable net position. Recovery on these funds is recorded as an increase in restricted non-expendable up to the historical value of each fund. Per UPMIFA (§ 1715.53(D)(C)), the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. For the year ended June 30, 2018, the annual distribution per share was 4.5% of the average fair value per share of the University Long-Term Investment Pool over the most recent seven-year period. For the year ended June 30, 2017, the annual distribution per share was 4.5% of the average fair value per share of the University Long-Term Investment Pool over the most recent seven-year period. These distributions, which were transferred from the University Long-Term Investment Pool to current restricted endowment distribution funds, totaled \$37,111,218 and \$34,315,899 in fiscal years 2018 and 2017, respectively.

At June 30, 2018, the fair value of the Foundation's gifted endowments was \$958,749,667, which is approximately \$38,125,188 above the historical dollar value of \$920,624,479. At June 30, 2018, there were 894 named funds underwater. The fair value of these underwater funds at June 30, 2018 was \$269,155,845 which was \$26,839,309 below the historical dollar value of \$295,995,154.

At June 30, 2017, the fair value of the Foundation's gifted endowments was \$877,261,330, which is approximately \$10,791,279 above the historical dollar value of \$866,470,051. Although the fair value of the Foundation's gifted endowments in total exceeds the historical cost at June 30, 2017, there were 1,020 named funds underwater. The fair value of these underwater funds at June 30, 2017 was \$315,032,670, which was \$35,156,928 below the historical dollar value of \$350,189,598.

The interests in unitrust, annuity trust, and gift annuity agreements (charitable remainder trusts and marketable securities) are carried at fair value. Mutual funds are recorded at share values reported by investment managers. Bonds and notes are recorded at values determined by market quotations. Realized gains or losses from sale or redemption of investments are calculated based upon the cost of the specific investment sold or redeemed. Purchases and sales of investments are reflected on a trade-date basis.

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The Foundation is the owner and beneficiary of certain restricted life insurance policies, including paid up single premium whole life policies and annual premium whole life policies for which the donors are paying the premiums. These policies are reported at their cash surrender values. Changes in cash surrender value are reported as miscellaneous income.

Real estate is recorded at the appraised value at the date of the gift. These assets totaled \$3,708,621 at June 30, 2018 and 2017.

Investment income is recorded on the accrual basis 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

The University President's Residence is reported as a capital asset and is shown net of accumulated depreciation. The net book value of the residence was \$3,137,008 and \$3,271,170 at June 30, 2018 and 2017, respectively.

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 advance from the University. No payment was made in 2018 or 2017.

Implementation of GASB Statement No. 81

In fiscal year 2018, the Foundation implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). The cumulative effect of adopting GASB Statement No. 81 was a \$12,222,961 reduction in the Foundation's net position as of July 1, 2016. The effects of adopting Statement No. 81 in the Foundation's financial statements for the year ended June 30, 2017 were as follows:

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
Statement of Net Position			
Current Liabilities:			
Charitable remainder trust liability	\$ 1,765,150	\$ (1,765,150)	\$ -
Gift annuity liabilities	1,595,381	(1,595,381)	-
Irrevocable split-interest agreements	-	3,360,531	3,360,531
Total current liabilities	5,601,211	-	5,601,211
Noncurrent Liabilities:			
Charitable remainder trust liability	15,120,953	(15,120,953)	-
Gift annuity liabilities	13,666,640	(13,666,640)	-
Gift annuity reserve	1,901,174	(1,901,174)	-
Irrevocable split-interest agreements	-	30,688,767	30,688,767
Total noncurrent liabilities	48,024,843	-	48,024,843
Total liabilities	53,626,054	-	53,626,054
Deferred inflows - irrevocable split-interest agreements	-	12,719,327	12,719,327
Restricted nonexpendable-endowment net position	824,383,421	(7,365,936)	817,017,485
Restricted expendable net position	158,732,760	(5,353,391)	153,379,369
Total net position	\$ 999,337,262	\$ (12,719,327)	\$ 986,617,935
Statement of Revenues, Expenses and Other Changes in Net Position			
Income from irrevocable split-interest agreements	\$ -	\$ 722,292	\$ 722,292
Total operating revenues	377,649,682	(2,290,500)	375,359,182
Non-operating Revenues:			
Interest and dividends	18,157,321	(1,849,998)	16,307,323
Increase (decrease) in fair value of investments	98,296,827	(993,630)	97,303,197
Gift annuity reserve adjustment	1,970,343	(1,970,343)	-
Change in carrying value of remainder trusts	(1,801,179)	1,801,179	-
Total net investment income (loss)	116,623,312	(3,012,792)	113,610,520
Operating Expenses:			
Distributions to gift annuitants	1,699,753	(1,699,753)	-
Professional services, audit and legal fees	982,044	(94,381)	887,663
Total operating expenses	258,075,142	(1,794,134)	256,281,008
Increase in net position	\$ 119,574,540	\$ (496,366)	\$ 119,078,174

Reclassification of Investment Expenses

In 2018, the Foundation implemented a change in presentation for investment expenses. These expenses, which totaled \$11,835,230 for the year ended June 30, 2018 and had previously been reported as Long Term Investment Pool expense, are now being netted against investment income. Foundation management determined that the use of this acceptable alternative accounting principle is preferable, because it improves comparability with other public institutions and better aligns the reporting of net investment income (loss) with the calculation of investment returns. The

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

statements of Revenues, Expenses and Other Changes in Net Position and Cash Flows for the year ended June 30, 2017 have been revised as follows:

Statement of Revenues, Expenses and Other Changes in Net Position:

	For the year ended June 30, 2017		
	As originally reported	Effect of reclassification	As reclassified
Long term investment pool expense	\$ 14,907,238	\$ (11,313,606)	\$ 3,593,632
Total operating expense	258,075,142	(11,313,606)	246,761,536
Interest and dividends, net of expenses	18,157,321	(11,313,606)	6,843,715
Total net investment income	116,623,312	(11,313,606)	105,309,706

Statement of Cash Flows:

	For the year ended June 30, 2017		
	As originally reported	Effect of reclassification	As reclassified
Payments to vendors for supplies and services	\$ (18,170,086)	\$ 11,313,606	\$ (6,856,480)
Total cash provided by operating activities	383,956	11,313,606	11,697,562
Interest and dividends received, net of expenses	16,307,323	(11,313,606)	4,993,717
Total cash provided (used) by investing activities	1,485,193	(11,313,606)	(9,828,413)

Newly Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018 (FY2019).

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (FY2020).

In June 2017, the GASB issued Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees will record an intangible right-of-use asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

maximum possible term of 12 months or less. This standard is effective for periods beginning after December 15, 2019 (FY2021).

Foundation management is currently assessing the impact that implementations of GASB Statements 83, 84 and 87 will have on the Foundation's financial statements.

2. INVESTMENTS

A substantial portion of the Foundation's investments are held by the University in the University Long-Term Investment Pool, a unitized investment pool that also includes gifted University endowments and University operating funds that are internally designated to function as endowments. The Foundation also holds certain other investments that are related to charitable arrangements. A summary of investments as of June 30, 2018 and 2017 are as follows:

	2018	2017
University Long-Term Investment Pool	\$ 958,749,667	\$ 877,261,330
Investments directly owned by Foundation:		
Investments held by charitable remainder trusts	28,123,838	27,756,885
Marketable securities	19,447,302	19,011,740
Investment partnership	138,527	212,612
Life insurance policies	1,324,962	1,345,459
Real estate	<u>3,708,621</u>	<u>3,708,621</u>
Total investments	1,011,492,917	929,296,647
Less current portion	<u>374,624</u>	<u>923,432</u>
Total Long-Term Investments	<u>\$ 1,011,118,293</u>	<u>\$ 928,373,215</u>

The Foundation's directly owned investments by investment type at June 30, 2018 and 2017 are as follows:

	2018	2017
Equity mutual funds	\$ 23,817,519	\$ 23,736,445
U.S. government obligations	467,867	352,334
Bond mutual funds	16,399,553	16,139,313
Private equity	122,667	196,752
Real assets	9,774,876	9,400,210
Cash and cash equivalents	835,806	864,804
Other	<u>1,324,962</u>	<u>1,345,459</u>
Total	<u>\$ 52,743,250</u>	<u>\$ 52,035,317</u>

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 quasi endowment funds which have been internally designated to function as endowments. 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. The University's Board of Trustees approved the following thematic asset classes, allocation ranges, and benchmarks for the University Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equities	40-80%	MSCI All Country World Index (ACWI)
Global Credit	10-50%	Barclays U.S. Aggregate Bond Index
Real Assets	5-20%	U.S. Consumer Price Index (CPI) +5%

The University Long Term Investment Pool is designed to produce competitive risk-adjusted returns that will provide real growth over time. Benchmarks are selected to measure the performance of the investments in each asset class considering the goals and expectations for each asset class.

The Global Equities category includes domestic equity, international equity, emerging market equity, hedged funds and private equity. The Global Credit category includes global fixed income and relative value/macro, credit oriented managers and private credit. The Real Assets category includes real estate, and infrastructure funds.

The University's Chief Financial Officer, in consultation with The Ohio State University Board of Trustees, reviews the thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool on a periodic basis.

Information on Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- *Level 1* – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include directly held equity securities, registered bonds, registered equity mutual funds and money market funds.
- *Level 2* – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2.

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Level 2 investments include fixed income securities that are valued using market information.

- *Level 3* – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include real estate and other assets.
- *Net Asset Value (NAV)* – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Alternative investments with an NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV included hedge funds, private equity investments.
- *Not Leveled* – Cash is not measured at fair value and, thus, is not subject to the fair value disclosure requirements.

The fair value of the Foundation's directly owned investments by category as of June 30, 2018 were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 23,817,519	\$ -	\$ -	\$ -	\$ 23,817,519
US government obligations	\$ -	467,867	-	-	467,867
Bond mutual funds	16,399,553	-	-	-	16,399,553
Private equity	-	-	-	122,667	122,667
Real assets	6,050,395	-	3,708,621	15,860	9,774,876
Cash equivalents	835,806	-	-	-	835,806
Other	-	-	1,324,962	-	1,324,962
Total	<u>\$ 47,103,273</u>	<u>\$ 467,867</u>	<u>\$ 5,033,583</u>	<u>\$ 138,527</u>	<u>\$ 52,743,250</u>

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The fair value of the Foundation's directly owned investments by category as of June 30, 2017 were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 23,736,445	\$ -	\$ -	\$ -	\$ 23,736,445
US government obligations	-	352,334	-	-	352,334
Bond mutual funds	16,139,313	-	-	-	16,139,313
Private equity	-	-	-	196,752	196,752
Real assets	5,675,729	-	3,708,621	15,860	9,400,210
Cash equivalents	864,804	-	-	-	864,804
Other	-	-	1,345,459	-	1,345,459
Total	<u>\$ 46,416,291</u>	<u>\$ 352,334</u>	<u>\$ 5,054,080</u>	<u>\$ 212,612</u>	<u>\$ 52,035,317</u>

Additional Information on Investments Measured at the NAV

Additional information on fair values, unfunded commitments, remaining life and redemption for investments measured at the NAV for the Foundation's directly owned interest-bearing investments as of June 30, 2018 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Private equity	\$ 122,667	\$ -	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets	15,860	-	No limit	30 to 90 day notice periods	
	<u>\$ 138,527</u>	<u>\$ -</u>			

Additional Risk Disclosures for Investments

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, University or Foundation investments may not be recovered. It is the policy of the University and the Foundation to hold investments in custodial accounts, and the securities are registered solely in the name of the University or the Foundation, as applicable. All investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation.

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 Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2018 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	\$ 467,867	\$ -	\$ 193,437	\$ 274,430	\$ -
Bond mutual funds	16,399,553	1,945,583	7,322,026	5,013,471	2,118,473
Total	<u>\$ 16,867,420</u>	<u>\$ 1,945,583</u>	<u>\$ 7,515,463</u>	<u>\$ 5,287,901</u>	<u>\$ 2,118,473</u>

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2017 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	\$ 352,334	\$ -	\$ -	\$ 352,334	\$ -
Bond mutual funds	16,139,313	1,218,563	6,702,764	6,001,278	2,216,708
Total	<u>\$ 16,491,647</u>	<u>\$ 1,218,563</u>	<u>\$ 6,702,764</u>	<u>\$ 6,353,612</u>	<u>\$ 2,216,708</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.

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* ("GASB 40"), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk.

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2018 were as follows:

Credit Rating (S & P)	Total	U.S.	
		Government Obligations	Bond Mutual Funds
AAA	\$ 8,257,252	\$ -	\$ 8,257,252
AA	1,274,982	467,867	807,115
A	4,678,138	-	4,678,138
BBB	952,179	-	952,179
BB	898,501	-	898,501
B	533,553	-	533,553
CCC	271,085	-	271,085
Not rated	1,730	-	1,730
Total	<u>\$ 16,867,420</u>	<u>\$ 467,867</u>	<u>\$ 16,399,553</u>

The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2017 were as follows:

Credit Rating (S & P)	Total	U.S.	
		Government Obligations	Bond Mutual Funds
AAA	\$ 8,880,302	\$ -	\$ 8,880,302
AA	1,214,757	352,334	862,423
A	4,335,770	-	4,335,770
BBB	584,064	-	584,064
BB	743,244	-	743,244
B	443,551	-	443,551
CCC	288,819	-	288,819
Not rated	1,140	-	1,140
Total	<u>\$ 16,491,647</u>	<u>\$ 352,334</u>	<u>\$ 16,139,313</u>

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 for investments owned directly by the Foundation as of June 30, 2018 was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Argentine Peso	\$ -	\$ 36,546
Australian Dollar	383,997	54,583
Brazilian Real	150,388	22,287
Canadian Dollar	237,461	181,276
Chilean Peso	25,738	-
Chinese Yuan	388,991	77,632
Colombia Peso	76,591	7,200
Czech Koruna	3,328	-
Danish Krone	88,955	1,094
EURO	2,668,373	(83,712)
Great Britain Pound Sterling	1,380,089	45,732
Hong Kong Dollar	583,509	-
Hungarian Forint	7,778	-
Iceland Krona	-	32,183
Indian Rupee	241,571	24,416
Indonesian Rupiah	46,827	468
Israeli Shekel	9,400	(468)
Japanese Yen	1,706,699	(97,555)
Malaysian Ringgit	57,402	-
Mexican Peso	99,136	209,953
New Taiwan Dollar	293,261	(39,129)
New Zealand Dollar	3,443	73,350
Norwegian Krone	123,430	53,638
Peruvian Nuevosol	6,285	-
Philippine Peso	23,520	-
Polish Zloty	29,066	-
Qatar Rial	28	-
Romanian New Leu	-	(15,339)
Russian Rouble	32,621	49,327
Singapore Dollar	62,542	(38,816)
South Africa Rand	148,287	781
South Korean Won	375,286	(31,616)
Swedish Krona	208,666	74,137
Swiss Franc	295,676	468
Thai Baht	55,188	(935)
Turkish Lira	19,254	-
UAE Dirham	28	-
	<u>\$ 9,832,814</u>	<u>\$ 637,501</u>

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2017 was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 383,366	\$ 232,349
Brazilian Real	151,592	47,167
Canadian Dollar	368,249	(2,892)
Chilean Peso	26,419	-
Chinese Yuan	412,288	304
Colombia Peso	59,244	-
Czech Koruna	3,651	-
Danish Krone	64,771	320
Egyptian Pound	2,840	-
EURO	2,667,877	110,115
Great Britain Pound Sterling	1,459,574	130,926
Hong Kong Dollar	552,772	1,825
Hungarian Forint	8,942	-
Indian Rupee	249,284	15,677
Indonesian Rupiah	61,341	19,889
Israeli Shekel	15,879	(453)
Japanese Yen	1,589,078	105,650
Korean Won	385,275	(128,712)
Malaysian Ringgit	65,570	7,603
Mexican Peso	109,288	146,350
New Taiwan Dollar	323,065	(174,103)
New Zealand Dollar	8,104	(32,536)
Norwegian Krone	95,932	47,297
Peruvian Nuevosol	5,493	7,907
Philippine Peso	30,476	(453)
Polish Zloty	35,547	-
Qatari RIAL	34	-
Russian Rouble	33,181	15,665
Singapore Dollar	61,336	(127,849)
South Africa Rand	146,312	1,062
Swedish Krona	190,761	30,091
Swiss Franc	501,473	(7,295)
Thai Baht	53,075	(792)
Turkish Lira	29,462	25,547
UAE Dirham	34	-
	<u>\$ 10,151,585</u>	<u>\$ 470,659</u>

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

3. Irrevocable Split-Interest Agreements

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.

An officer of the Foundation, acting as trustee, enters into unitrust and annuity trust agreements ("charitable remainder trusts"), 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 will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for gift annuity and trust agreements by recording the fair market value of assets donated as of the date of the gift, a liability for the present value of amount payable to beneficiaries and a deferred inflow of resources. The present value calculation is based on a combination of the agreed-upon payout rate, actuarial assumptions on mortality rates and a discount rate. The discount rates were 3.4% and 2.4% at June 30, 2018 and 2017, respectively. Revenue from gift annuity and trust agreements is recognized upon termination of the agreements.

Assets, liabilities and deferred inflows associated with irrevocable split-interest agreements as of June 30, 2018 are as follows:

	<u>Gift Annuities</u>	<u>Trusts</u>	<u>Total</u>
Assets:			
Investments held in charitable remainder trusts -- current	\$ -	\$ 371,080	\$ 371,080
Marketable securities -- current	3,544	-	3,544
Investments held in charitable remainder trusts -- noncurrent	-	27,752,758	27,752,758
Marketable securities -- noncurrent	19,443,758	-	19,443,758
Total assets	<u>19,447,302</u>	<u>28,123,838</u>	<u>47,571,140</u>
Liabilities:			
Irrevocable split-interest agreements -- current	1,458,991	1,636,201	3,095,192
Irrevocable split-interest agreements -- noncurrent	14,996,102	14,636,603	29,632,705
Total liabilities	<u>16,455,093</u>	<u>16,272,804</u>	<u>32,727,897</u>
Deferred Inflows	<u>\$ 2,992,209</u>	<u>\$ 11,851,034</u>	<u>\$ 14,843,243</u>

The noncurrent portion of irrevocable split-interest agreements for gift annuities at June 30, 2018 includes a reserve of \$1,944,730. For the year ended June 30, 2018, the Foundation recognized \$2,086,176 of revenues associated with terminations of irrevocable split-interest agreements.

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Assets, liabilities and deferred inflows associated with irrevocable split-interest agreements as of June 30, 2017 are as follows:

	<u>Gift Annuities</u>	<u>Trusts</u>	<u>Total</u>
Assets:			
Investments held in charitable remainder trusts -- current	\$ -	\$ 824,013	\$ 824,013
Marketable securities -- current	99,419	-	99,419
Investments held in charitable remainder trusts -- noncurrent	-	26,932,872	26,932,872
Marketable securities -- noncurrent	18,912,321	-	18,912,321
Total assets	<u>19,011,740</u>	<u>27,756,885</u>	<u>46,768,625</u>
Liabilities:			
Irrevocable split-interest agreements -- current	1,595,381	1,765,150	3,360,531
Irrevocable split-interest agreements -- noncurrent	15,567,814	15,120,953	30,688,767
Total liabilities	<u>17,163,195</u>	<u>16,886,103</u>	<u>34,049,298</u>
Deferred Inflows	<u>\$ 1,848,545</u>	<u>\$ 10,870,782</u>	<u>\$ 12,719,327</u>

The noncurrent portion of irrevocable split-interest agreements for gift annuities at June 30, 2017 includes a reserve of \$1,901,174. For the year ended June 30, 2017, the Foundation recognized \$414,730 of revenues associated with terminations of irrevocable split-interest agreements.

4. OTHER LIABILITIES

Other liability activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 17,336,076	\$ 1,505,724	\$ 3,487,324	\$ 15,354,476	\$ -
Irrevocable split-interest agreements:					
Charitable remainder trust liability	16,886,103	517,165	1,130,464	16,272,804	1,636,201
Gift annuity liabilities	15,262,021	1,312,151	2,063,809	14,510,363	1,458,991
Gift annuity reserve	1,901,174	2,488,308	2,444,752	1,944,730	-
	<u>\$ 51,385,374</u>	<u>\$ 5,823,348</u>	<u>\$ 9,126,349</u>	<u>\$ 48,082,373</u>	<u>\$ 3,095,192</u>

Other liability activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 16,263,529	\$ 11,876,763	\$ 10,804,216	\$ 17,336,076	\$ -
Irrevocable split-interest agreements:					
Charitable remainder trust liability	15,038,909	1,992,864	145,670	16,886,103	1,765,150
Gift annuity liabilities	16,025,117	649,397	1,412,493	15,262,021	1,595,381
Gift annuity reserve	1,791,122	1,826,807	1,716,755	1,901,174	-
	<u>\$ 49,118,677</u>	<u>\$ 16,345,831</u>	<u>\$ 14,079,134</u>	<u>\$ 51,385,374</u>	<u>\$ 3,360,531</u>

5. RELATED-PARTY TRANSACTIONS

The University had cumulative net advances to the Foundation of \$2,164,008 and \$1,852,876 as of June 30, 2018 and 2017, respectively. The Foundation distributed \$223,325,262 and \$235,447,559, in fiscal years 2018 and 2017, respectively, to the University as directed by donors. The Foundation had no receivables from the University as of June 30, 2018 and June 30, 2017.

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

As noted previously, 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 as well as allocation of expenses 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.

University leadership is in the process of restructuring Pelotonia, LLC into a new 501(c)(3) organization. It is anticipated that the assets in the LLC will be transferred to the new 501(c)(3) organization sometime in FY2019.

The Ohio State University Foundation

Supplementary Information on the Long-Term Investment Pool (Unaudited)

Year Ended June 30, 2018

The following section of the financial report provides additional information on the university's Long-Term Investment Pool, including a summary of changes in market value, investment returns and related expenses. Additional details on university investments, including asset allocations, endowment distribution policies, investment by type and risk disclosures, are provided in Notes 1 and 3 to the Financial Statements.

In 2018, the market value of the university's Long-Term Investment Pool – which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments – increased \$958 million, to \$5.21 billion at June 30, 2018. The Long-Term Investment Pool activity for 2018 is summarized below:

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments		Quasi-Endowments		Total
	University	Foundation	Operating	Designated	
Balance at June 30, 2017	\$ 1,062,321	\$ 877,261	\$ 1,299,780	\$ 1,014,097	\$ 4,253,459
Net Principal Additions (Withdrawals)	9,038	54,158	(130,490)	877,783	810,489
Change in Fair Value	73,672	61,637	86,698	114,220	336,227
Income Earned	21,387	18,037	24,631	33,946	98,001
Distributions	(44,120)	(37,111)	(51,049)	(71,699)	(203,979)
Expenses	(18,062)	(15,232)	(20,801)	(28,668)	(82,763)
Balance at June 30, 2018	\$ 1,104,236	\$ 958,750	\$ 1,208,769	\$ 1,939,679	\$ 5,211,434

Net principal additions (withdrawals) for gifted endowments include new endowment gifts and reinvestment of unused endowment distributions. **Change in fair value** includes realized gains and losses for assets sold during the year and unrealized gains and losses for assets held in the pool at June 30, 2018. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses (\$64 million), University Development related expenses (\$18 million) and other investment related expenses (\$1 million).

Investment Returns and Expenses

The investment return for the Long-Term Investment Pool was 7.7% for fiscal year 2018. The annualized investment returns for the three-year and five-year periods were 6.0% and 7.2%, respectively. These returns -- which are net of investment management expenses as defined by Cambridge Associates for its annual survey -- are used for comparison purposes with other endowments and various benchmarks. In addition to the \$64 million of investment management expenses, which reduced the pool by 1.3% in fiscal year 2018, the \$18 million of University Development expenses and \$1 million of other investment related expenses further reduced the pool by 0.4%.

**The Ohio State University Foundation
Supplementary Information on the Long-Term Investment Pool (Unaudited)
Year Ended June 30, 2018**

Additional Information

For more information on how the Long-Term Investment Pool is invested, please visit the Office of Investments website at: investments.osu.edu.

Additional details on university and foundation endowments, including balances for individual funds, are available on the Office of the Controller's website at:

go.osu.edu/EndowAdmin (click on the "Endowment Descriptions and Balances" link).

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Report of Independent Auditors 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, 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, the consolidated financial statements of The Ohio State University Foundation (the "Foundation"), appearing on pages 9 to 29, which consist of the consolidated statement of net position as of June 30, 2018, and the related consolidated statements of revenues, expenses and other changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic consolidated financial statements, and have issued our report thereon dated November 6, 2018, which included a matter of emphasis paragraph concerning the Foundation's change in the manner in which it accounts for irrevocable split-interest agreements. The Foundation is a component of The Ohio State University.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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 a 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 and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

November 6, 2018



Dave Yost • 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
NOVEMBER 29, 2018