THE OHIO UNIVERSITY FOUNDATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2002

(With Independent Auditors' Report Thereon)

Board of Trustees
The Ohio University Foundation and Subsidiaries

We have reviewed the Independent Auditor's Report of The Ohio University Foundation and Subsidiaries, Athens County, prepared by KPMG LLP for the audit period July 1, 2001 through June 30, 2002. 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 University Foundation and Subsidiaries is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 26, 2003

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THE OHIO UNIVERSITY FOUNDATION
AND SUBSIDIARIES

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1600 PNC Center
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Cincinnati, OH 45202

Independent Auditors' Report

The Board of Trustees
The Ohio University Foundation:

We have audited the accompanying consolidated statement of financial position of The Ohio University Foundation, an Ohio not-for-profit corporation (the Foundation), and subsidiaries as of June 30, 2002, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the Inn-Ohio of Athens, Inc. and Housing for Ohio, Inc., which statements reflect total assets constituting 21% and total net assets constituting 3% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those consolidated subsidiaries, is based solely on the report of the other auditors.

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. 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Ohio University Foundation and subsidiaries as of June 30, 2002, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in unaudited note 2 to the consolidated financial statements, net assets and cash as of the beginning of the year have been restated. The fiscal year 2001 financial statements were previously audited by other auditors that have ceased operations.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in schedules 1 and 2 is presented for purposes of additional analysis rather than to present the financial position or change in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, and that of the other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as whole, subject to the previous paragraph.

In accordance with *Government Auditing Standards,* we have also issued a report dated April 8, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

April 8, 2003

THE OHIO UNIVERSITY FOUNDATION
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Consolidated Statement of Financial Position

June 30, 2002

Assets

Cash	$	4,019,796
Accounts receivable, net		2,625,122
Deposit with trustees – restricted cash		5,432,685
Interest and dividends receivable		236,416
Prepaid expenses		1,244,240
Pledges receivable, net		11,225,225
Bequests receivable		200,000
Investments		138,172,473
Cash surrender value – life insurance policies		2,277,739
Notes receivable, net		139,761
Charitable remainder trusts		1,691,253
Charitable gift annuities		3,352,373
Property and equipment, net		36,597,437
Other		2,711,236
Total assets	$	209,925,756

Liabilities and Net Assets

Liabilities:		
Accounts payable:		
Ohio University	$	2,010,627
Trade and other		3,063,604
Construction		4,160,467
Deposits held in custody for others		425,046
Annuities payable		1,993,581
Charitable remainder trust obligation		612,464
Bonds payable		31,815,000
Notes payable		3,433,206
Other liabilities		108,929
Total liabilities		47,622,924
DHI minority interest liability		1,258,057
Commitments and contingencies		
Net assets:		
Unrestricted		6,504,991
Temporarily restricted		76,568,746
Permanently restricted		77,971,038
Total net assets		161,044,775
Total liabilities and net assets	$	209,925,756

See accompanying notes to consolidated financial statements.

THE OHIO UNIVERSITY FOUNDATION
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Consolidated Statement of Activities

Year ended June 30, 2002

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:					
Gifts and contributions	$	348,874	1,836,782	5,566,387	7,752,043
University support		3,550,650	—	—	3,550,650
Income from investments:					
Interest and dividends		598,629	2,228,157	—	2,826,786
Change in market value of investments:					
Sold during the year (realized gain (loss))		(444,968)	(2,614,368)	178,473	(2,880,863)
Held at year-end (unrealized gain (loss))		(3,232,747)	(18,311,878)	83,282	(21,461,343)
Sales, services, and events		105,339	—	—	105,339
Change in value – split-interest agreements		(9,928)	(89,292)	(604,563)	(703,783)
Other		312,538	492,445	251,853	1,056,836
Inn-Ohio of Athens, Inc. revenues		4,342,839	—	—	4,342,839
Housing for Ohio revenues		1,461,192	—	—	1,461,192
Diagnostic Hybrids revenues		7,628,970	28,536	80,047	7,737,553
		14,661,388	(16,429,618)	5,555,479	3,787,249
Net assets released from restrictions:					
Satisfaction of program restrictions:					
Alumni relations		41,864	(41,864)	—	—
Institutional support		3,422,042	(3,422,042)	—	—
Instruction and departmental support		4,449,332	(4,449,332)	—	—
Academic services support		988,557	(988,557)	—	—
Intercollegiate athletics support		282,347	(282,347)	—	—
Student services		282,133	(282,133)	—	—
Scholarships and fellowships		3,680,949	(3,680,949)	—	—
Public services		48,551	(48,551)	—	—
Research		81,605	(81,605)	—	—
Fundraising and development		14,354	(14,354)	—	—
Total net assets released from restrictions		13,291,734	(13,291,734)	—	—
Total revenues and other support		27,953,122	(29,721,352)	5,555,479	3,787,249

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THE OHIO UNIVERSITY FOUNDATION
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Consolidated Statement of Activities

Year ended June 30, 2002

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Expenses:				
Program services:				
Alumni relations	$ 1,515,306	—	—	1,515,306
Institutional support	3,852,918	—	—	3,852,918
Instruction and departmental support	4,681,006	—	—	4,681,006
Academic services support	1,087,410	—	—	1,087,410
Intercollegiate athletics support	314,765	—	—	314,765
Student services	288,616	—	—	288,616
Scholarships and fellowships	3,680,949	—	—	3,680,949
Public services	48,813	—	—	48,813
Research	288,513	—	—	288,513
Supporting services:				
Fundraising and development	4,768,154	—	—	4,768,154
Fund administration	502,447	—	—	502,447
Other	946	—	—	946
Inn-Ohio of Athens, Inc. operations	3,881,257	—	—	3,881,257
Housing for Ohio operations	2,770,888	—	—	2,770,888
Diagnostic Hybrids operations	7,356,639	—	—	7,356,639
Carrying costs of real estate	8,811	—	—	8,811
Change in donor designation	—	(2,350,438)	2,350,438	—
Total expenses	35,047,438	(2,350,438)	2,350,438	35,047,438
Changes in net assets	(7,094,316)	(27,370,914)	3,205,041	(31,260,189)
Minority interest in Diagnostic Hybrids, Inc.	133,359	—	—	133,359
Net assets, beginning of year, as restated (unaudited note 2)	13,732,666	103,939,660	74,765,997	192,438,323
Net assets, end of year	$ 6,504,991	76,568,746	77,971,038	161,044,775

See accompanying notes to consolidated financial statements.

THE OHIO UNIVERSITY FOUNDATION
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Consolidated Statement of Cash Flows

Year ended June 20, 2002

Cash flows from operating activities:		
Changes in net assets	$	(31,260,189)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization		1,183,156
Realized investment losses		2,880,863
Unrealized investment losses		21,461,343
Minority interest expense		(133,359)
Increase in cash surrender value of life insurance policies		(144,952)
Changes in current assets and liabilities:		
Increase in accounts receivable		(489,495)
Decrease in pledges receivable		1,449,222
Decrease in bequests receivable		379,727
Decrease in interest and dividends receivable		118,317
Increase in prepaid expenses		(231,355)
Increase in other assets, net of acquisition		(1,504,280)
Decrease in accounts payable		1,924,222
Decrease in other payable		(204,073)
Increase in deposits held in custody for others		110,737
Total adjustments		26,800,073
Net cash used in operating activities		(4,460,116)
Cash flows from investing activities:		
Additions to property and equipment		(8,522,194)
Cash paid for acquisitions		(447,425)
Payment of construction costs payable		(2,117,664)
Purchases of investments		(105,925,973)
Proceeds from sales of investments		109,746,751
Decrease in restricted cash		10,616,606
Decrease in notes receivable		95,239
Increase in charitable remainder trusts		(343,862)
Increase in investments subject to annuity agreements		767,325
Increase in minority interest		739,609
Net cash provided by investing activities		4,608,412
Cash flows from financing activities:		
Proceeds from issuances of notes and bonds payable		1,824,019
Payments on notes and bonds payable		(170,000)
Net change in annuity obligations		247,970
Net cash provided by financing activities		1,901,989
Net increase in cash		2,050,285
Cash, beginning of year		1,969,511
Cash, end of year	$	4,019,796
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	584,124
Cash paid during the year for income tax		139,367
Supplemental schedule of noncash activities:		
Transfer of property to University		1,125,000
Issuance of promissory note and other obligations for acquisition		2,628,960

See accompanying notes to consolidated financial statements.

(1) Organization and Operation

The Ohio University Foundation (the Foundation) was incorporated in Ohio in October 1945 to support the educational undertakings of Ohio University (the University). The Foundation is authorized to solicit and receive gifts and contributions for the benefit of the University and to ensure that funds and property received are applied to the uses specified by the donor.

The Foundation's wholly owned subsidiary, Inn-Ohio of Athens, Inc. (the Inn), owns and operates a 144-room hotel and restaurant facility in Athens, Ohio known as The Ohio University Inn (see note 11). The Foundation's other wholly owned subsidiary, Housing for Ohio, Inc. (Housing), constructed and operates a 580-unit student-housing complex in Athens, Ohio (see note 12). The Foundation also owns a majority interest in Diagnostic Hybrids, Inc. (DHI), which develops and manufactures tissue cell cultures, antibody kits, and biological reagents for use in medical laboratories (see note 13).

(2) Restatement (Unaudited)

Net assets as of the beginning of the year have been restated to reflect adjustments relating principally to the consolidation of DHI; valuation and classification of charitable remainder trusts, charitable gift annuities, and annuitant liabilities; calculation of the present value of pledges receivable; and presentation of net assets in accordance with donor stipulations.

DHI, in which the Foundation holds the majority interest, was previously not reflected on a consolidation basis of accounting. Net assets of approximately $845,000 were adjusted as of the beginning of the year to properly reflect the Foundation's ownership interests using the consolidation method of accounting.

Net assets at the beginning of the year were adjusted to reflect the correction of several errors relating to the valuation and classification of charitable remainder trusts, charitable gift annuities, and the charitable remainder trust obligation. These adjustments resulted in an increase in total net assets of approximately $216,000.

Net assets at the beginning of the year were adjusted to reflect the proper valuation and classification of several pledges. These adjustments resulted in an increase of approximately $486,000 in net assets as of the beginning of the year.

Net assets at the beginning of the year were adjusted to properly reflect the classification of donations and related earnings of approximately $8,130,000 as temporarily restricted, in accordance with donor stipulations.

The following table sets forth the impact of these adjustments on beginning net assets:

		As previously reported	Adjustments	As restated
Net assets:				
Unrestricted	$	13,253,613	479,053	13,732,666
Temporarily restricted		95,608,597	8,331,063	103,939,660
Permanently restricted		82,028,527	(7,262,530)	74,765,997
Total	$	190,890,737	1,547,586	192,438,323

In addition to the restatement of beginning net assets, the consolidation of DHI into the Foundation as of the beginning of the year has resulted in an adjustment to cash, beginning of the year, as reflected in the consolidated statement of cash flows, to include DHI's cash balance of $484,952 as of the beginning of the year.

		As previously reported	Adjustments	As restated
Cash	$	1,484,559	484,952	1,969,511

(3) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. The accompanying consolidated financial statements present the financial position and results of operations of the Foundation and its majority-owned subsidiaries – the Inn, Housing, and its majority-owned subsidiary, DHI. All intercompany transactions have been eliminated.

(b) Use of Estimates

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

(c) Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of contributions receivable, investments for the Foundation, and receivables related to operations of the Inn. Exposure to losses on contributions receivable is principally dependent on each donor's financial condition. The Foundation monitors the exposure for credit losses and maintains allowances for anticipated losses.

Investments are recorded at fair value. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the Foundation's statements of financial position and activities.

Regarding the Inn, the management company that operates the Inn is responsible for collection of receivables (see note 11). However, the management company has recourse with respect to these receivables, and, accordingly, the Inn provides a reserve for any estimated uncollectible balances.

(d) Gifts and Contributions

Contributions are recorded at their fair value on the date of receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories. When a donor restriction expires (when a stipulated time restriction ends or the purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed property is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property are recorded as unrestricted support.

Contributions of charitable gift annuities are reduced by the actuarially determined liability resulting from acceptance of the gift. Contributions held in charitable remainder trusts are recorded at the present value of their estimated future benefits to be received when the trust assets are distributed upon notification of the donor's death (see note 10).

(e) Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate. The discount rate utilized was 2.2% for fiscal year 2002. Amortization of the discounts is included in contribution revenues. Unconditional promises to give, which are silent as to the due date, are presumed to be time restricted by the donor until received and are reported as temporary net assets. Conditional promises to give are not included as support until the conditions on which they depend are substantially met.

(f) Intentions

The Foundation receives communications from donors indicating that the Foundation has been included in the donor's will or life insurance policy as beneficiary, representing intentions to give rather than promises to give. Such communications are not unconditional promises to give because the donors retain the ability to modify their wills and insurance policies during their lifetimes. The

(Continued)

total realizable value of these intended gifts has not been established, nor have the intended gifts been recognized as an asset or contribution revenue. Such gifts are recorded when the Foundation is notified of the donor's death, the will is declared valid by a probate court, and the proceeds are measurable.

(g) Cash Surrender Value of Insurance Policies

The Foundation records as an asset the cash surrender value of insurance policies for which it is the owner and beneficiary.

(h) Investments

Investments in securities are recorded at fair value based on quoted market prices.

(i) Income from Investments

All investment income in the form of interest and dividends is credited to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on permanently restricted, temporarily restricted, and unrestricted investments is credited to unrestricted net assets unless otherwise restricted by the donor.

(j) Property and Equipment

Property and equipment are recorded at the estimated fair value, if received as a gift, or at the purchase cost, plus any expenditures for improvements.

Depreciation of buildings is recorded over periods ranging from 10 to 31.5 years using the straight-line method. Depreciation and amortization of other property, equipment, and improvements is recorded over periods ranging from 5 to 15 years using the straight-line method.

Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for Impairment of Long-lived Assets and Long-lived Assets to Be Disposed Of,* requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Foundation has determined that no impairment to the carrying value of its long-lived assets exists at June 30, 2002.

(k) Restricted Cash

Restricted cash at June 30, 2002 relates to cash proceeds from the issuance of bonds to fund the housing construction. Such cash is held in trust and is available only to fund qualifying costs of construction (see note 12).

(l) Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

(m) Income Taxes

The Internal Revenue Service has determined that The Ohio University Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. Accordingly, no provision for income or excise tax has been made in the accompanying consolidated financial statements for the Foundation, as The Ohio University Foundation did not have significant unrelated business income.

(n) Fair Value of Financial Instruments

The carrying values of the Foundation's financial instruments in the accompanying consolidated statement of financial position approximate their respective estimated fair value at June 30, 2002, except for notes receivable. The fair value of the notes receivable is not necessarily determinable given the terms of the notes (see note 8).

The Foundation has estimated the fair values of its financial instruments using available quoted market information and other valuation methodologies in accordance with Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures About Fair Value of Financial Instruments*. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Foundation could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts.

(o) Advertising Costs

Advertising costs of the Inn are included in marketing expenses and are expensed as incurred.

(4) Net Assets

(a) Unrestricted Net Assets

The unrestricted net assets consist of operating funds available for any purpose authorized by the board of trustees. Net assets related to the Inn, Housing, and DHI are included in unrestricted net assets, as there are no donor-imposed restrictions on the use of these net assets.

(b) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds that are restricted for a specific use or time determined by the donor.

Temporarily restricted net assets as of June 30, 2002 are available for the following purposes:

Alumni relations	$	810,242
Institutional support		4,347,118
Instruction and departmental support		26,513,553
Academic services support		10,306,117
Intercollegiate athletics support		484,684
Student services		992,597
Scholarships and fellowships		28,316,548
Public services		263,550
Research		1,028,681
Fundraising and development		3,505,656
	$	76,568,746

(c) Permanently Restricted Net Assets

Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, that the principal be maintained in perpetuity and only the investment income from investment of the funds be expended. Certain donor endowments also specify that a portion of the earnings from the investment be reinvested as principal, or that all income earned over a period of time be reinvested. Amounts are also transferred for specific uses as authorized from time to time by the donor.

Permanently restricted net assets as of June 30, 2002 are available for the following purposes:

Alumni relations	$	641,904
Institutional support		1,809,975
Instruction and departmental support		35,045,684
Academic services support		3,189,772
Intercollegiate athletics support		51,059
Student services		1,674,789
Scholarships and fellowships		34,427,007
Public services		403,397
Research		92,703
Fundraising and development		193,704
Other		441,044
	$	77,971,038

(5) Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at June 30, 2002:

Unconditional promises to give before unamortized discount and allowance for uncollectibles	$	13,595,057
Less: Unamortized discount		316,053
Subtotal		13,279,004
Less: Allowance for uncollectibles		2,053,779
Unconditional promises to give, net	$	11,225,225

		Temporarily restricted	Permanently restricted
Amounts due in:			
Less than one year	$	2,597,733	1,585,069
One to five years		5,271,588	1,516,336
More than five years		185,407	69,092
Total	$	8,054,728	3,170,497

(6) Investment in Securities

The cost and fair value of the investment in securities at June 30, 2002 are as follows:

		Cost	Fair value
Common and preferred stock	$	132,929,446	102,266,218
Short-term cash investments		14,948,319	14,937,344
Bonds and debentures		19,392,239	17,400,404
Other		3,785,644	3,568,507
Total investments	$	171,055,648	138,172,473

As of June 30, 2002, the contributed value of certain permanently restricted endowments exceeded the fair market value by approximately $7,300,000.

(7) Property and Equipment

As of June 30, 2002, property and equipment (primarily relating to Housing and the Inn) are as follows:

Land	$	806,432
Land improvements		161,074
Building and building improvements		36,026,830
Furnishings, fixtures, and equipment		4,434,150
Construction in progress		27,327
		41,455,813
Less accumulated depreciation and amortization		(4,858,376)
Property and equipment, net	$	36,597,437

Total depreciation and amortization expense of $1,183,156 was recorded in fiscal year 2002.

Construction in progress represents costs incurred to date by Housing to construct a student-housing complex.

(8) Notes Receivable and Related Parties

Prior to 1998, the Foundation made interest-bearing working capital loans totaling $495,000 to an Ohio for-profit entity, SEED, which was formed to support, enhance, and supplement the scientific and technological research, educational activities, and economic development of the University. Total outstanding notes receivable related to SEED are $90,000 at June 30, 2002.

In November 1997, the Foundation approved a loan totaling $75,000 to Electronic Vision, Inc. (EVI), which was used for marketing and distribution of an interactive CD that contains credit hours of instruction on filming and a library of reference. The project is used to continue to promote Ohio University as a filmmaking school, and can be used as a distance-learning tool. Total outstanding notes related to EVI are $49,761 at June 30, 2002.

(9) Support from Ohio University

During 2002, the University paid certain payroll costs amounting to $2,779,503, and additional costs of $771,147, for the Foundation's Development Office, Office of Alumni Relations, and Accounting Office. The support costs paid by the University are reflected in the consolidated statement of activities as University support, with a like amount included in expenses.

The University provides office space and the use of certain common facilities and services to the Foundation at no cost. These costs have not been recorded as University support because they are not considered to be material to the results of operations of the Foundation.

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(10) Split-interest Agreements

(a) Charitable Gift Annuities

Under charitable gift annuity agreements, all assets are held by the Foundation. Therefore, the Foundation has recorded the donated assets at fair value and the liabilities to the donor or his/her beneficiaries discounted to the present value of the estimated future payments to be distributed by the Foundation to such individuals at a rate established at the beginning of the agreement. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. The discount rate applied to gift annuities held at June 30, 2002 ranged from 5.8% to 9.8%.

(b) Charitable Remainder Trust

Under charitable remainder trust agreements, the Foundation serves as the remainderman, whereby the Foundation will receive the net assets of the trust upon death of the donor's beneficiary. During the life of the trust, the donor, or the donor-designated beneficiary, will receive regular payments as established by the trust.

In instances where the donor has not specifically reserved the right to change the remainderman, and all assets of charitable remainder trusts are maintained by a third-party trustee in an irrevocable trust for the benefit of the Foundation, the Foundation will recognize, as contribution revenue and as a receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. The trustee disburses income earned on the assets of the charitable remainder trusts to the donor or donor-designated beneficiaries.

In instances where the donor has not specifically reserved the right to change the remainderman, and the Foundation serves as the trustee, the Foundation will recognize the fair market value of the assets of the trust, as well as a liability for the net present value of future payments to be distributed by the Foundation to the donor or his/her designated beneficiaries. The amount of the contribution is the difference between the asset and liability at the inception of the trust. The present value of the future payments to the donor-designated beneficiary is determined using a discount rate established at the beginning of the trust. At June 30, 2002, the discount rate applied to the charitable remainder trusts was 6%.

Certain charitable remainder trust transactions are not reported on the consolidated statement of financial position or the consolidated statement of activities, as in these cases the remainderman (the Foundation) can be changed by the donor prior to his/her death.

Adjustments to the receivable to reflect amortization of the discount, revaluation of the present value of the estimated future payments to the donor-designated beneficiaries, and changes in actuarial assumptions during the term of the trust will be recognized as changes in the value of split-interest agreements. Upon the death of the donor-designated beneficiaries, the receivable is closed, the assets received from the trust are recognized at fair value, and any difference is reported as a change in the value of split-interest agreements.

(c) Revocable Trusts

Under revocable trust agreements, the Foundation serves as the remainderman, whereby the Foundation will receive the net assets of the trust upon death of the donor's beneficiary. All assets of the trusts may be maintained by a third-party trustee for the benefit of the Foundation, or by the Foundation if named as a trustee. The trustee disburses income earned on the assets of trusts to the donor or donor-designated beneficiaries. Under revocable trust agreements, the donor maintains the ability to legally dissolve the trusts and may or may not reserve the right to change the remainderman. For these reasons, the Foundation does not report revocable trust transactions on the consolidated statement of financial position or the consolidated statement of activities if the trust is held by a third-party trustee.

(11) Inn-Ohio of Athens, Inc.

The Ohio University Inn was purchased by the Foundation on August 30, 1986. The primary purpose for which the Foundation invested in the Inn was to provide affordable and convenient housing, dining, and conference facilities for the University employees, alumni, and guests. As a significant portion of the Inn's revenues is derived from these customers, the Foundation is committed to financially supporting the Inn.

The Inn's business is subject to all of the risks inherent in the lodging industry. These risks include, among other factors, varying levels of demand for rooms and related services, adverse effects of general and local economic and market conditions, changes in governmental regulations that influence wages or prices, changes in interest rates, the availability of credit and changes in real estate taxes and other operating expenses, and the recurring need for renovation, refurbishment, and improvements.

(a) Operations

The Inn's operations for the year ended June 30, 2002 are summarized below:

Revenue	$ 4,342,839
Operating and general expenses	3,401,138
Depreciation and amortization	450,256
Interest expense, net	29,863
Total expenses	3,881,257
Net income	461,582
Dividends paid to Foundation	(200,000)
Unrealized losses	(36,386)
Change in net assets	$ 225,196

Effective November 30, 1996, a management agreement (the Management Agreement) was entered into with Winegardner & Hammons, Inc, (the Manager). The Management Agreement was amended during fiscal 2001 to automatically renew annually unless notified in writing of renewal 60 days prior to the end of the fiscal year. The Manager's compensation is a base fee plus 15% of the hotel's net available operating profit as defined in the Management Agreement. In fiscal year 2002, base management fees incurred by the Inn with respect to the Manager were $100,000, and incentive fees were $118,820.

As of June 30, 2002, the Inn has net operating loss carryforwards of approximately $681,000 for Federal income tax purposes. The NOL carryforwards expire in years 2003 through 2012. The Inn has reflected deferred income taxes at a 40% tax rate, which represents a blended statutory Federal and state income tax rate. As of June 30, 2002, the Inn has recorded a valuation allowance of approximately $483,000 due to the uncertainty of the future realizability of its remaining net deferred tax asset carryforwards, in accordance with the provisions of SFAS No. 109.

(b) Debt Obligations

Long-term debt of the Inn as of June 30, 2002 consists of the following:

1996 Serial Project Bonds:		
5.60% due November 1, 2002	$	110,000
5.75% due November 1, 2003		115,000
5.85% due November 1, 2004		120,000
5.95% due November 1, 2005		130,000
6.05% due November 1, 2006		140,000
1996 Term Project Bonds:		
6.25%, at 97.61%, due November 1, 2011		830,000
		1,445,000
Less unamortized discount on Series 1996 Bonds		12,307
Total debt	$	1,432,693

The 1996 Serial and Term Project Bonds (the Bonds) are secured by a mortgage on the Inn and a security agreement granted by the Inn. These Bonds are also guaranteed by the Foundation from unrestricted funds.

The 1996 Term Project Bonds require the Inn to make monthly payments to a trustee. These payments accumulate in the bond fund to pay principal and interest on the Bonds. Principal payments are due annually on November 1; interest payments are due semiannually each May 1 and November 1 and are payable from the bond fund. The 1996 Serial Project Bonds are subject to redemption prior to maturity, including mandatory sinking fund redemption. After November 1, 2006, the Inn has the option to prepay the 1996 Bonds. The balance in the bond fund at June 30, 2002 was $88,433.

The 1996 Bonds maturing in November 2011 are subject to a mandatory sinking fund requirement to be deposited as set forth in the following schedule:

	Amount
November 1:	
2007	$ 145,000
2008	155,000
2009	165,000
2010	175,000
2011	190,000
	$ 830,000

The fair value of the debt obligations at June 30, 2002 approximated their carrying value.

(12) Housing for Ohio, Inc.

In November 1999, the Foundation established Housing for Ohio, Inc. (Housing), a limited liability company and 501(c)(3) corporation, with the purpose of acquiring, developing, constructing, and operating a 182-unit student-housing rental project which contains 580 beds. The property, known as University Courtyard Apartments (the Project), is located in Athens, Ohio on property owned by Ohio University and leased to Housing. As of June 30, 2002, construction has been completed on the facility. The facility will be managed and operated by a private entity.

(a) Debt

In September 2000, Housing offered $31,985,000 of variable-rate, tax-exempt bonds (the 2000 Bonds). The proceeds of the 2000 Bonds were intended to finance the construction, installation, and equipping of the Project. The 2000 Bonds will be fully matured at June 2032 and bear interest at an adjustable rate as determined weekly by the remarketing agent, based on their knowledge of prevailing market conditions, except that in no event will the interest rate on the 2000 Bonds exceed 12%. The average interest rate for the year ended June 30, 2002 was 1.79%, and the actual interest rate at June 30, 2002 was 1.35%.

As collateral, until all principal and interest on any of the 2000 Bonds has been paid, Housing has pledged, assigned, and granted a security interest to its right, title, and interest in gross revenues of University Courtyard and related assets. The Foundation has made no additional pledge of assets or revenues to the 2000 Bonds, which are nonrecourse to the Foundation.

Principal payments for the bonded debt for the years subsequent to June 30, 2002 are summarized as follows:

		Principal
Year ending June 30:		
2003	$	170,000
2004		255,000
2005		240,000
2006		445,000
2007		530,000
Thereafter		30,175,000
Total	$	31,815,000

Debt issuance costs are included in other assets on the balance sheet and are amortized over the term of the bonds. Amortization during the year ended June 30, 2002 amounted to $28,722.

(13) Diagnostic Hybrids, Inc. (DHI)

DHI, an Ohio corporation located in Athens, Ohio, develops and manufactures genetically engineered and non-engineered tissue cell cultures, monoclonal antibody kits, and biological reagents for use by laboratory technicians in medical laboratories. These products are used to diagnose viral diseases and endocrine disorders.

The Foundation has accumulated 802,720 shares of Class A common stock and 384,622 shares of Convertible Preferred Shares, which represent an approximate 71% ownership of DHI. The common stock was accumulated from the initial purchase of founder shares (410,000), the conversion of a series of debenture bonds from funds loaned to DHI during its development beginning in 1991 (152,720), and from a private donor (240,000). The preferred shares were purchased in February 2002 for $6.50 per share. The preferred shares acquisition was accounted for under the purchase method of accounting.

The Series A Preferred Shares are convertible into common shares based on a conversion price, initially $6.50 per common share. The conversion price is to be adjusted for shares and options issued at prices below $6.50 per share. In addition, conversion rights were granted to the Foundation such that the Foundation has the right to convert all of the Series A Preferred Shares to an amount of common shares that, when added to the common shares held by the Foundation (subject to appropriate adjustments for stock splits and similar transactions), would equal 50.1% of the sum of (i) the number of common shares issued and outstanding on the date of exercise by the Foundation of its conversion rights, plus (ii) all common shares subject to purchase from DHI pursuant to options and all other common share purchase rights that are issued and outstanding to the extent such options and purchase rights are vested, plus (iii) all common shares that may be acquired pursuant to convertible securities issued and outstanding. This special conversion right expires on February 15, 2006. The Series A Preferred Shares also convert automatically on a qualified initial public offering and have voting rights equal to common shares and a liquidation preference over common shares.

DHI's operations for the year ended June 30, 2002 are summarized below:

Revenue	$	7,737,553
Operating and general expenses		7,234,951
Interest expense		35,688
Provision for income taxes		86,000
Total expenses		7,356,639
Net income	$	380,914

DHI has four stock option plans under which options have been granted to employees and consultants. DHI accounts for its employee and director stock-based compensation plans in accordance with APB Opinion No. 25. The Company measures compensation expense under APB Opinion No. 25, *Accounting for Stock Issued to Employees.* In July 2001, the Company granted 362,350 options under the 2001 Plan at exercise prices below estimated fair value of the common stock. In February 2002, the Company granted 321,124 options under the 2002 Plan at exercise prices below estimated fair value of the common stock. The 2002 Plan options vest only if certain performance targets are met. During the 12-month period ended June 30, 2002, the Company recorded compensation expense of $606,250.

The Company has elected not to adopt the cost recognition provisions of SFAS No. 123, *Accounting for Stock-based Compensation* (SFAS No. 123). The Company follows only the disclosure provisions of SFAS No. 123, as permitted by SFAS No. 123. In accordance with SFAS No. 123, the fair value of each option grant is estimated on the date of each grant using the Black-Scholes option pricing model. If compensation expense had been determined using the estimated fair value of options under SFAS No. 123, the pro forma effects on changes in net assets for the 12-month period ended June 30, 2002 would have been a reduction of approximately $94,000.

The weighted average per-share fair value of options granted of $2.04 was used to calculate the pro forma compensation expense. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend rate of 0.0%; volatility of 0.0%; risk-free interest rate of 4.0%; and expected life of 10 years.

Activity under these plans for the 12-month period ended June 30, 2002 was as follows:

	Shares		Weighted average exercise price
Outstanding, beginning of period	52,480	$	3.81
Granted	683,474		1.84
Outstanding, end of period	735,954		1.98
Options exercisable	378,830		1.06

Exercise price	Options outstanding	Weighted average remaining life		Weighted average exercise price	Options exercisable		Weighted average exercise price
$2.00-$4.00	373,604	9.5	$	3.35	52,480	$	3.81
0.56	362,350	9.0		0.56	326,350		0.56
	735,954				378,830		

DHI accounts for income taxes under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes are provided for the expected tax consequences of differences between the financial reporting and tax bases of assets and liabilities.

DHI has the following debt obligations at June 30, 2002:

State of Ohio Pioneer Loan: 4% installment note, payable monthly through 2008	$	62,699
Installment payable related to purchase of BioWhittaker Zero interest loan, payable in monthly installements through February 2003		1,397,814
Note payable to BioWhittaker: Payments begin March 2003 with 12% payable in 36 monthly installments		540,000
	$	2,000,513

(Continued)

The aggregate maturities and scheduled payments of debt for each of the next five years are as follows:

Twelve months ending June 30:		
2003	$	1,452,521
2004		190,102
2005		190,514
2006		145,942
2007		21,434
Total debt	$	2,000,513

(14) Litigation

Housing, Ambling Companies, Inc., and subsidiaries (Ambling), the developer and manager of Housing for Ohio, and various of its subcontractors are defendants along with Ohio University in a legal action initiated by the United Brotherhood of Carpenters and Joiners of America and joined in by the State of Ohio, Department of Commerce for the payment of back wages and penalties. On August 12, 2001, the plaintiffs and defendants (including Ohio University) entered into an agreement regarding preliminary injunctive relief in which the defendants deposited $2,350,000 in an escrow account with the trustee to secure their obligation to pay back wages and penalties in the event the alleged noncompliance with the prevailing wage statute is confirmed. In the opinion of management, the litigation will have no material adverse impact on the Foundation's consolidated financial statements.

THE OHIO UNIVERSITY FOUNDATION AND SUBSIDIARIES

Consolidating Schedule of Financial Position

June 30, 2002

		OUF	OU Inn	Housing for Ohio	DHI	Eliminations	Total
Assets:							
Cash	$	513,540	1,007,110	6,534	2,492,612	—	4,019,796
Deposit with trustees – restricted cash		—	—	5,432,685	—	—	5,432,685
Accounts receivable, net		458,870	175,401	—	1,990,851	—	2,625,122
Interest and dividends receivable		236,416	—	—	—	—	236,416
Prepaid expenses		60,704	11,200	886,941	285,395	—	1,244,240
Pledges receivable, net		11,225,225	—	—	—	—	11,225,225
Bequests receivable		200,000	—	—	—	—	200,000
Investments		138,172,473	813,934	—	—	(813,934)	138,172,473
Investment in Inn-Ohio of Athens, inc.		5,531,906	—	—	—	(5,531,906)	—
Investment in Diagnostic Hybrids		3,593,443	—	—	—	(3,593,443)	—
Cash surrender value – life insurance policies		2,277,739	—	—	—	—	2,277,739
Notes receivable, net		139,761	—	—	—	—	139,761
Charitable remainder trusts		1,691,253	—	—	—	—	1,691,253
Charitable gift annuities		3,352,373	—	—	—	—	3,352,373
Property and equipment, net		1,280,009	5,229,805	29,318,180	769,443	—	36,597,437
Other		—	156,040	178,292	2,376,904	—	2,711,236
Total assets	$	168,733,712	7,393,490	35,822,632	7,915,205	(9,939,283)	209,925,756
Liabilities and net assets:							
Liabilities:							
Accounts payable:							
Ohio University	$	2,010,627	—	—	—	—	2,010,627
Trade and other		682,089	428,891	940,227	1,012,397	—	3,063,604
Construction costs		—	—	4,160,467	—	—	4,160,467
Deposits held in custody for others		1,080,480	—	158,500	—	(813,934)	425,046
Annuities payable		1,993,581	—	—	—	—	1,993,581
Charitable remainder trust obligation		612,464	—	—	—	—	612,464
Bonds payable		—	—	31,815,000	—	—	31,815,000
Notes payable		—	1,432,693	—	2,000,513	—	3,433,206
Other liabilities		—	—	58,134	50,795	—	108,929
Total liabilities		6,379,241	1,861,584	37,132,328	3,063,705	(813,934)	47,622,924
DHI minority interest liability		—	—	—	—	1,258,057	1,258,057
Net assets:							
Unrestricted:							
Board of trustees-designated quasi-endowments		11,133,434	—	—	—	—	11,133,434
Board of trustees-designated other		953,165	—	—	—	—	953,165
Designated change in value		(3,275,613)	—	—	—	—	(3,275,613)
Undesignated		(996,299)	—	(1,309,696)	—	—	(2,305,995)
Temporarily restricted		76,568,746	—	—	—	—	76,568,746
Permanently restricted		77,971,038	—	—	—	—	77,971,038
Total net assets		162,354,471	—	(1,309,696)	—	—	161,044,775
Stockholders' equity:							
Common stock		—	3,429,182	—	12,952	(3,442,134)	—
Preferred stock		—	—	—	3,846	(3,846)	—
Additional paid-in capital		—	4,140,455	—	4,618,563	(8,759,018)	—
Deferred stock compensation		—	—	—	(385,004)	385,004	—
Retained earnings		—	(2,037,731)	—	601,143	1,436,588	—
Total stockholders' equity		—	5,531,906	—	4,851,500	(10,383,406)	—
Total liabilities, net assets, and stockholders' equity	$	168,733,712	7,393,490	35,822,632	7,915,205	(9,939,283)	209,925,756

See accompanying independent auditors' report.

Schedule 2

THE OHIO UNIVERSITY FOUNDATION
AND SUBSIDIARIES

Consolidating Schedule of Activities

Year ended June 30, 2002

	Unrestricted	OU Inn	Housing for Ohio	DHI	Total unrestricted	Total temporarily restricted	Total permanently restricted	Eliminations	Total
Revenues and other support:									
Gifts and contributions	$ 348,874	—	—	—	348,874	1,836,782	5,566,387	—	7,752,043
University support	3,550,650	—	—	—	3,550,650	—	—	—	3,550,650
Income from investments:									
Interest and dividends	798,629	(200,000)	—	—	598,629	2,228,157	—	—	2,826,786
Change in market value of investments:									
Sold during the year	(444,968)	—	—	—	(444,968)	(2,614,368)	178,473	—	(2,880,863)
Held at year-end	(3,196,361)	(36,386)	—	—	(3,232,747)	(18,311,878)	83,282	—	(21,461,343)
Revenues from sales, services, and events	105,339	—	—	—	105,339	—	—	—	105,339
Change in value – split-interest agreements	(9,928)	—	—	—	(9,928)	(89,292)	(604,563)	—	(703,783)
Other	312,538	—	—	—	312,538	492,445	251,853	—	1,056,836
Inn-Ohio of Athens, Inc. revenues	—	4,342,839	—	—	4,342,839	—	—	—	4,342,839
Housing for Ohio revenues	—	—	1,461,192	—	1,461,192	—	—	—	1,461,192
Diagnostic Hybrids revenues	—	—	—	7,737,553	7,737,553	—	—	—	7,737,553
Subsidiary revenues	364,168	—	—	—	364,168	28,536	80,047	(472,751)	—
	1,828,941	4,106,453	1,461,192	7,737,553	15,134,139	(16,429,618)	5,555,479	(472,751)	3,787,249
Net assets released from restrictions:									
Satisfaction of program restrictions:									
Alumni relations	41,864	—	—	—	41,864	(41,864)	—	—	—
Institutional support	3,422,042	—	—	—	3,422,042	(3,422,042)	—	—	—
Instruction and departmental support	4,449,332	—	—	—	4,449,332	(4,449,332)	—	—	—
Academic services support	988,557	—	—	—	988,557	(988,557)	—	—	—
Intercollegiate athletics support	282,347	—	—	—	282,347	(282,347)	—	—	—
Student services	282,133	—	—	—	282,133	(282,133)	—	—	—
Scholarships and fellowships	3,680,949	—	—	—	3,680,949	(3,680,949)	—	—	—
Public services	48,551	—	—	—	48,551	(48,551)	—	—	—
Research	81,605	—	—	—	81,605	(81,605)	—	—	—
Fundraising and developments	14,354	—	—	—	14,354	(14,354)	—	—	—
Total net assets released from restrictions	13,291,734	—	—	—	13,291,734	(13,291,734)	—	—	—
Total revenues and other support	15,120,675	4,106,453	1,461,192	7,737,553	28,425,873	(29,721,352)	5,555,479	(472,751)	3,787,249

(Continued)

Schedule 2

THE OHIO UNIVERSITY FOUNDATION
AND SUBSIDIARIES

Consolidating Schedule of Activities

Year ended June 30, 2002

	Unrestricted	OU Inn	Housing for Ohio	DHI	Total unrestricted	Total temporarily restricted	Total permanently restricted	Eliminations	Total
Expenses:									
Program services:									
Alumni relations	$ 1,515,306	—	—	—	1,515,306	—	—	—	1,515,306
Institutional support	3,852,918	—	—	—	3,852,918	—	—	—	3,852,918
Instruction and departmental support	4,681,006	—	—	—	4,681,006	—	—	—	4,681,006
Academic services support	1,087,410	—	—	—	1,087,410	—	—	—	1,087,410
Intercollegiate athletics support	314,765	—	—	—	314,765	—	—	—	314,765
Student services	288,616	—	—	—	288,616	—	—	—	288,616
Scholarships and fellowships	3,680,949		—	—	3,680,949	—	—	—	3,680,949
Public services	48,813	—	—	—	48,813	—	—	—	48,813
Research	288,513	—	—	—	288,513	—	—	—	288,513
Supporting services:									
Fundraising and development	4,768,154	—	—	—	4,768,154	—	—	—	4,768,154
Fund administration	502,447	—	—	—	502,447	—	—	—	502,447
Other	946	—	—	—	946	—	—	—	946
Inn-Ohio of Athens, Inc. operations	—	3,881,257	—	—	3,881,257	—	—	—	3,881,257
Housing for Ohio operations	—	—	2,770,888	—	2,770,888	—	—	—	2,770,888
Diagnostic Hybrids operations	—	—	—	7,356,639	7,356,639	—	—	—	7,356,639
Carrying costs of real estate	8,811	—	—	—	8,811	—	—	—	8,811
Change in donor designation	—	—	—	—	—	(2,350,438)	2,350,438	—	—
Total expenses	21,038,654	3,881,257	2,770,888	7,356,639	35,047,438	(2,350,438)	2,350,438	—	35,047,438
Change in net assets	(5,917,979)	225,196	(1,309,696)	380,914	(6,621,565)	(27,370,914)	3,205,041	(472,751)	(31,260,189)
Minority interest in Diagnostic Hybrids, Inc.	—	—	—	—	—	—	—	133,359	133,359
Issuance of preferred stock	—	—	—	2,500,000	2,500,000	—	—	(2,500,000)	—
Stock-based compensation	—	—	—	606,250	606,250	—	—	(606,250)	—
Net assets, beginning of year, as restated	13,732,666	5,306,710	—	1,364,336	20,403,712	103,939,660	74,765,997	(6,671,046)	192,438,323
Net assets, end of year	$ 7,814,687	5,531,906	(1,309,696)	4,851,500	16,888,397	76,568,746	77,971,038	(10,383,406)	161,044,775

See accompanying independent auditors' report.

1600 PNC Center
201 East Fifth Street
Cincinnati, OH 45202

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The Ohio University Foundation:

We have audited the consolidated financial statements of The Ohio University Foundation (Foundation) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 8, 2003, which includes an explanatory paragraph related to the restatement of net assets and cash as of the beginning of the year. We did not audit the financial statements of the Inn-Ohio of Athens, Inc. and Housing for Ohio, Inc., which represent 21% of total assets and 3% of total net assets. 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.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Foundation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The Foundation's reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

KPMG

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and would not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the Foundation in a separate letter dated April 8, 2003.

This report is intended solely for the information and use of the Audit Committee and management of the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

April 8, 2003

THE OHIO UNIVERSITY FOUNDATION
AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Finding 02-1

During our audit of the Foundation's financial statements, we noted certain deficiencies in the end-of-year reporting process. Documentation is lacking on the flow of financial information, including how certain transactions are initiated, reviewed, posted in the general ledger, and presented in the financial statements.

Questioned Costs

None

Systemic or Isolated

Systemic

Effect of Finding

The above finding may inhibit the Foundation's ability to prepare and review timely end-of-year financial data.

Recommendation

The Foundation should perform a thorough evaluation over its process of gathering and reporting financial information for its end-of-year reporting process. This evaluation should include the restructuring of the process in order to ensure that financial information is reported timely, effectively, and accurately.

Auditor of State
Betty Montgomery

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OHIO UNIVERSITY FOUNDATION AND SUBSIDIARIES

ATHENS 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
SEPTEMBER 16, 2003