The Ohio State University Foundation

Report on Audit of Consolidated Financial Statements As of and for the Years ended June 30, 2012 and 2011 and Report on Internal Controls over Financial Reporting and of 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

We have reviewed the *Report of Independent Auditors* of The Ohio State University Foundation, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2011 through June 30, 2012. 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.

Dave Yost
Auditor of State

December 14, 2012

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statement of net assets and related statement of revenue, expenses and changes in net assets and statement of cash flows present fairly, in all material respects, the financial position of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, as of June 30, 2012, and June 30, 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 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. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 2 through 5 are 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 the appropriate operational, economic, and 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 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.

PricewaterhouseCoopers LLP

October 15, 2012

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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, 2012. 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 2012 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 Ohio State University Foundation was formed in 1985. Its purpose is to serve as the primary fundraising and gift receipting organization for the University and to act as trustee of trusts formed for the benefit of The Ohio State University (the "University"). Beginning with a gift of 361 acres from the Neil family to establish Ohio State in 1870, private support has been invaluable to the University's mission of providing top quality education and service to residents of Ohio, and improving the quality of life for everyone.

The mission of The Ohio State University Office of Advancement is to attain private philanthropic funding from alumni, friends, corporations and foundations. Through the Foundation, its Board of Directors, a national corps of volunteers, University administrators, faculty, and staff, the Office of University Advancement organizes and coordinates all fundraising programs for the University in support of the academic mission and objectives of the University as determined by the academic leadership of the University.

The first focused campaign at the University raised approximately $1 million to help build Ohio Stadium, which was dedicated in 1922. Fundraising was institutionalized 15 years later when the Board of Trustees created the Development Fund (the "Fund"). In the Fund's first full year, more than 3,300 donors gave the University almost $82,000. In 1985, the Foundation was incorporated and became the University's primary fundraising and gift-receiving organization. Today, the Foundation is governed by a board of 56 members and is led by the Senior Vice President of Advancement, who reports to the President of the University.

Since its inception, the Foundation has led two comprehensive campaigns. Its first, The Campaign for The Ohio State University, launched in 1985 with a goal of $350 million. The campaign successfully closed in 1990 with gifts and pledges over $460 million. In 1995, the University publicly launched its Affirm Thy Friendship campaign with a goal of $850 million, and later raised the goal to $1 billion. When the campaign ended in 2000, the University had raised $1.23 billion, making the University one of only five public universities at that time to have exceeded the billion-dollar mark in fundraising.

Effective July 1, 2011 the Foundation is the recipient of all initial gifts in order to streamline the accounting process, with certain gifts immediately transferred to the University and those intended for endowments remaining in Foundation.

About the Financial Statements

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

Statements of Net Assets

	2012	2011	2010
Assets			
Current assets	$ 28,975,272	$ 31,046,510	$ 25,692,036
Noncurrent assets	605,178,169	568,200,009	490,271,720
Total assets	$ 634,153,441	$ 599,246,519	$ 515,963,756
Liabilities			
Current liabilities	$ 3,789,952	$ 4,190,445	$ 4,958,370
Noncurrent liabilities	35,447,064	36,640,437	34,772,342
Total liabilities	39,237,016	40,830,882	39,730,712
Net Assets			
Invested in capital assets, net of related debt	4,080,800	4,308,317	4,535,834
Restricted			
Nonexpendable - Endowment	509,065,867	492,737,705	418,789,158
Expendable	81,871,001	61,427,734	53,957,435
Unrestricted	(101,243)	(58,119)	(1,049,383)
Total net assets	594,916,425	558,415,637	476,233,044
Total liabilities and net assets	$ 634,153,441	$ 599,246,519	$ 515,963,756

Assets
Total current assets decreased from $31 million at June 30, 2011, to $29 million at June 30, 2012, primarily due to a decrease of pledges receivable by $3 million and offset by an increase of accounts receivable by $2 million.

Total noncurrent assets increased from $568 million at June 30, 2011, to $605 million at June 30, 2012, due primarily to the overall financial market performance of investments of $16 million and an increase of $21 million for pledges receivable.

Liabilities
Total current liabilities of $4 million at June 30, 2012 were comparable to the prior year.

Total noncurrent liabilities decreased from $37 million at June 30, 2011, to $35 million at June 30, 2012, which is comparable to prior year.

Net Assets
Net assets increased from $558 million at June 30, 2011 to $595 million at June 30, 2012 as a result of revenues exceeding operating expenses for 2012.

Prior-Year Highlights

Total current assets increased from $26 million at June 30, 2010, to $31 million at June 30, 2011, primarily due to an increase of pledges receivable by $2 million and accounts receivable by $1.5 million. Total noncurrent assets increased from $490 million at June 30, 2010, to $568 million at June 30, 2011, due primarily to the overall financial market performance of investments of $65 million. Net assets increased from $476 million at June 30, 2010 to $558 million at June 30, 2011 as a result of revenue exceeding operating expenses.

Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010
Operating revenues	$ 211,467,149	$ 186,292,931	$ 148,190,310
Operating expenses	174,966,361	104,110,338	71,223,022
Increase(decrease) in net assets	$ 36,500,788	$ 82,182,593	$ 76,967,288

Operating Revenues

Overall, operating revenues increased from $186 million in 2011 to $211 million in 2012. The primary reason for the increase was the increase in gifts. This is the first year that all gifts are recorded through the Foundation. A detailed analysis of the components of operating revenues follows:

- Gifts increased from $106 million in 2011 to $200 million in 2012.
- Interest and dividends were comparable for 2011 and 2012.
- The realized/unrealized gain (loss) represents the adjustment of investments to market value at June 30, 2012. The net adjustment to market was a gain of $66 million in 2011 and a loss of $3 million in 2012, primarily due to market conditions.
- The gift annuity reserve adjustment is comparable to prior year.
- The change in the carrying value of remainder trusts increased $2 million from 2011 to 2012.
- Miscellaneous income is comparable to prior year.

Operating Expenses

Overall operating expenses increased from $104 million in 2011 to $175 million in 2012. A detailed analysis of the components of operating expenses is as follows:

Distributions to the University, not including payments received on accounts receivable and payments toward advances, increased from $83 million in 2011 to $160 million in 2012 due to an increase in gifts passed on to the University from the Foundation because all gifts are now recorded through the Foundation.

Distributions to gift annuitants represent contractual payments to annuitants and the amount is comparable between June 30, 2011 and June 30, 2012.

Gift annuity remainder distributions are payments to the University for the accounts of annuitants passing away during the year. The expenses decreased from $3 million in 2011 to $1 million in 2012.

Prior-Year Highlights

The increase in net assets from $77 million in 2010 to $82 million in 2011 is primarily the result of increased operating revenues and expenses. Operating revenues increased from $148 million in 2010 to $186 million in 2011 due to investment performance gain of $12 million and $23 million due to increase in gifts. Operating expenses increased from $71 million in 2010 to $104 million in 2011 due to increase in gifts passed on to the University from the Foundation Statements of Cash Flows:

Statements of Cash Flows

	2012	2011	2010
Operating activities	$ 17,628,127	$ 10,133,912	$ 7,651,272
Investing activities	(18,030,128)	(7,818,349)	(6,104,909)
Financing activities	-	(905,691)	(820,015)
Net increase in cash and cash equivalents	(402,001)	1,409,872	726,348
Cash and cash equivalents, beginning of year	2,964,371	1,554,499	828,151
Cash and cash equivalents, end of year	$ 2,562,370	$ 2,964,371	$ 1,554,499

The major positive cash flow item included in operating activities is cash received from contributors totaling $183 million for 2012. The largest negative cash flow item included in operating activities is distributions to the University of $161 million for 2012. Total distributions to the University include distributions from donors and payments on advances net of cash received on accounts receivable.

Cash used in investing activities represents purchases of investments totaling $56 million for 2012. This is offset by proceeds from sales of investments of $38 million for 2012.

Prior-Year Highlights

Cash flow activities were comparable between 2010 and 2011.

Economic Challenges

Apropos to President Gee's vision: "Severe economic pressures have created a defining moment for colleges and universities, which must fundamentally reinvest themselves to survive." Given the rising costs of academic excellence and the precipitous decline in state support of college and university budgets, private support is critical to higher education now.

Although the global markets remained a significant downside risk to the recovery, the University is tracking to implement a successful fundraising campaign to provide additional funding for the people and the programs that make the institution such a vital part of the local economy and a leader in education, research and public service. The Board of Trustees has authorized the next step in conducting long-planned $2.5 billion comprehensive fundraising campaign. By providing for specific investments in students, faculty, and the infrastructure that support attainment of our goals, the commitment will lead the way for consistent recognition for true eminence. The objectives of the campaign are students first, elevating faculty, and academic enterprise, creating modern learning environments, emboldening our research agenda and driving high impact innovation. We accept this as a commitment to moving well beyond current levels of institutional excellence. The campaign is scheduled to end June 30, 2018.

The Ohio State University Foundation
Consolidated Statements of Net Assets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 2,562,370	$ 2,964,371
Pledges receivable - current portion - net	20,319,344	23,514,610
Accounts receivable	5,774,748	4,176,787
Accrued interest receivable	13,401	14,656
Marketable securities	214,894	333,038
Charitable remainder trusts	72,515	-
Other assets	18,000	43,048
Total current assets	28,975,272	31,046,510
Investments - Long-term		
The Ohio State University Long-Term Investment Pool	500,824,488	484,426,575
Marketable securities	15,903,070	16,516,548
Investment partnerships	478,841	565,367
Charitable remainder trusts	32,523,273	33,917,464
Life insurance policies	5,248,431	4,609,995
Real estate	1,008,621	-
Total investments - long-term	555,986,724	540,035,949
Pledges receivable, net	44,306,992	23,197,326
Capital assets, net	4,080,800	4,308,317
Receivable from The Ohio State University	803,653	658,417
Total	$ 634,153,441	$ 599,246,519
Liabilities and Net Assets		
Current liabilities		
Charitable remainder trust liability	$ 1,989,440	$ 2,223,247
Gift annuity liabilities	1,283,743	1,234,053
Gift annuity reserve	244,211	455,524
Advance from The Ohio State University	124,140	181,438
Accrued liabilities	148,418	96,183
Total current liabilities	3,789,952	4,190,445
Deferred revenue	1,622,223	1,337,537
Charitable remainder trust liability	19,030,830	19,953,576
Gift annuity liabilities	12,280,189	11,081,217
Gift annuity reserve	2,336,101	4,090,386
Advance from The Ohio State University	177,721	177,721
Total liabilities	39,237,016	40,830,882
Net Assets		
Invested in capital assets, net of related debt	4,080,800	4,308,317
Restricted		
Nonexpendable - endowment	509,065,867	492,737,705
Expendable	81,871,001	61,427,734
Unrestricted	(101,243)	(58,119)
Total net assets	594,916,425	558,415,637
Total liabilities and net assets	$ 634,153,441	$ 599,246,519

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

The Ohio State University Foundation
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Gifts	$ 199,861,519	$ 106,069,881
Net investment income		
Interest and dividends	11,266,573	10,964,858
Realized/unrealized gain (loss)	(3,737,712)	66,890,634
Gift annuity reserve adjustment	1,966,217	2,158,301
Change in carrying value of remainder trusts	1,166,621	(692,207)
Total net investment income	10,661,699	79,321,586
Miscellaneous (expense) income	943,931	901,464
Total operating revenues	211,467,149	186,292,931
Operating Expenses		
Distributions to The Ohio State University	160,414,556	83,281,077
Distributions to gift annuitants	1,577,520	1,667,627
Gift annuity remainder distributions	694,603	3,097,719
Salaries and benefits	1,335,853	1,045,699
Long-term Investment Pool expense	12,566,427	11,788,335
Professional services, audit and legal fees	246,640	357,631
Provision for uncollectible pledges	(3,791,182)	1,087,308
Depreciation	227,518	227,517
Interest on debt	-	24,898
Rent and utilities expense	186,599	140,770
Other	1,507,827	1,391,757
Total operating expenses	174,966,361	104,110,338
Increase in net assets	36,500,788	82,182,593
Net assets, beginning of year	558,415,637	476,233,044
Net assets, end of year	$ 594,916,425	$ 558,415,637

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

The Ohio State University Foundation
Consolidated Statements of Cash Flows
June 30, 2012 and 2011

	2012	2011
Operating Activities		
Cash received from contributors	$ 183,430,960	$ 98,854,597
Interest and dividends received	10,826,799	9,782,003
Funding from The Ohio State University	305,495	305,495
Receipt of new gift annuity agreements	1,270,307	1,982,012
Receipt of new trust agreements	10,068	756,452
Investment income received on gift annuities	464,822	1,157,806
Distributions to The Ohio State University	(160,617,090)	(83,245,949)
Income distributions paid to gift annuitants	(1,577,520)	(1,667,627)
Distributions to gift annuity remainderman	(694,603)	(3,097,719)
Payments to vendors for supplies and services	(14,455,258)	(13,647,459)
Payments to or on behalf of employees	(1,292,037)	(1,000,103)
University employee benefit payments	(43,816)	(45,596)
Net cash provided by operating activities	17,628,127	10,133,912
Investing Activities		
Proceeds from sales of investments	38,018,731	40,447,967
Purchases of investments	(56,048,859)	(48,266,316)
Net cash used in investing activities	(18,030,128)	(7,818,349)
Financing Activities		
Payments on note payable	-	(905,691)
Increase in cash and cash equivalents	(402,001)	1,409,872
Cash and cash equivalents, beginning of year	2,964,371	1,554,499
Cash and cash equivalents, end of year	$ 2,562,370	$ 2,964,371
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities		
Increase in net assets	$ 36,500,788	$ 82,182,593
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	227,517	227,517
Realized/unrealized (gain) loss on investments	3,737,932	(66,890,635)
Change in cash surrender value of life insurance policies	(638,436)	(595,969)
Total gifts received in real estate	(1,008,621)	(1,068,567)
Other	20,807	(182,259)
Changes in assets and liabilities		
Pledges receivable	(17,914,400)	(4,227,492)
Accounts receivable	284,686	(1,469,665)
Deferred revenue	25,048	637,748
Accrued interest receivable	(1,583,406)	(25,048)
Other current assets	-	-
Receivable from The Ohio State University	(145,236)	177,576
Advance from The Ohio State University	(57,298)	(142,448)
Accrued liabilities	52,235	55,932
Gift annuities liabilities	1,248,662	(820,764)
Gift annuity reserve	(1,965,598)	826,734
Charitable remainder trust liability	(1,156,553)	1,448,659
Net cash provided by operating activities	$ 17,628,127	$ 10,133,912

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

1. ACCOUNTING POLICIES

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

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

Basis of Presentation
The accompanying financial statements include the accounts of the Foundation, Clifton Holdings, LLC ("Clifton"), and Pelotonia LLC (formerly known as NetJames Holdings LLC) ("Pelotonia"). Clifton was created in 2007, and Pelotonia was created in 2008. Both are component units, which are legally separate organizations for which the Foundation is financially accountable. Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

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

- An organization is fiscally dependent on the primary government

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

Basis of Accounting
The financial statements of the Foundation have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

Reclassification
Certain prior year accounts have been reclassified to conform with current year presentations.

Cash and Cash Equivalents

The Foundation considers all demand deposit accounts and money market funds with a maturity of three months or less at the date of purchase to be cash equivalents. All cash is principally on deposit with two banks, with a third bank holding cash equivalents within investments. The cash and cash equivalents are covered by federal deposit insurance.

Pledges Receivable

The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. The Foundation reduces pledges receivable to estimated net realizable value by recording an allowance for uncollectible pledges. The allowance is estimated using a four-year rolling average of canceled pledges divided by net pledges receivable. For the years ended June 30, 2012 and 2011 the Foundation recorded an allowance against pledges receivable of $4,437,896 and $8,229,078, respectively.

Fund Accounting

To ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. The university's financial resources are classified for accounting and reporting purposes into the following four net asset categories:

- **Invested in capital assets, net of related debt**

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

- **Restricted - Nonexpendable (Endowment)**

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

- **Restricted - Expendable**

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

- **Unrestricted**

  The unrestricted fund represents funds that can be used by the Foundation for any purpose authorized by the Board of Directors.

Gifts

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

In accordance with GASB Statement No. 33, private donations are recognized when all eligibility requirements are met. The Foundation has recorded $64,626,336 and $46,711,936, in pledges receivable, net of allowance for uncollectible pledges, as of June 30, 2012 and 2011, 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 that is not material to the financial statement disclosure.

Investments

Investments in The Ohio State University Long-Term Investment Pool ("University Long-Term Investment Pool") are valued at share values reported by the University. The University Long-Term Investment Pool holds investments in limited partnerships, private equity, and other investments, which are carried at fair value provided by the management of these funds. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to low correlation with other asset classes. Methods for determining estimated fair values include discounted cash flows and estimates provided by general partners. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements.

All endowments are invested in the University Long-Term Investment Pool. For donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Ohio, permits the University's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation, as the Board deems prudent. Net realized and unrealized appreciation (depreciation) is retained in the University Long-Term Investment Pool.

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is equal 4.25% of the average market value per share of the Long-Term Investment Pool over the most recent seven year period. The undistributed gains were transferred from the University Long-Term Investment Pool to current funds. These transfer totals were $23,081,000 and $21,800,000 in fiscal years 2012 and 2011, respectively.

At June 30, 2012, the market value of the Foundation's gifted endowments was $500,825,000, which is approximately $84,456,000 below the historical dollar value of $585,281,000. At June 30, 2011, the market value of the Foundation's gifted endowments was $484,427,000, which is approximately $57,000,000 below the historical dollar value of $541,427,000. 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.

The interest in unitrust, annuity trust, and pooled income agreements (marketable securities and charitable remainder trust) are carried at market value. Mutual funds are recorded at share values reported by investment 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 Foundation is the owner and beneficiary of certain restricted life insurance policies. Paid up single premium whole life insurance policies are recorded at their net present value, which was calculated using the risk-free interest rate based on last five-year average (approximately 2% at June 30, 2012 and 3% at June 30, 2011). Whole life policies, including both single premium and annual premium policies for which the donors are paying the premiums are recorded at their cash surrender value. The increase in the recorded value during the year is recorded in miscellaneous income.

Real estate is recorded at the appraised value.

Investment income is recorded 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

Capital assets, net of accumulated depreciation of $4.1 million, is the residence used by the University President for housing.

Reimbursement Agreement and Resolution

The Foundation and the University entered into an agreement in March 1989 to reimburse costs incurred by the University on behalf of the Foundation and to repay related advances from the University. In connection therewith, the Foundation's Board of Directors approved a resolution in April 1989, authorizing the Foundation to utilize undesignated income earned from unrestricted/restricted funds, as needed, to reimburse the University. On July 7, 2000, the University's Board of Trustees approved a resolution creating a funding plan for University development. Part of this plan includes support to reduce the Foundation's outstanding liability to the University. A reduction of $305,500 was recognized in 2012 and $305,500 was recognized in 2011.

Newly Issued Accounting Pronouncements

In November 2010, GASB issued Statement No. 60, *Accounting and Reporting for Service Concession Arrangements*. This standard provides guidance on accounting for agreements where a government transfers the right to operate a government asset to another entity, in exchange for significant consideration from that entity. Upfront payments from such agreements are to be recorded as a “deferred inflow of resources” and recognized as revenue over the life of the agreement. The standard also provides guidance for operators/concessionaires that are government entities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

Also in November 2010, the GASB issued Statement No. 61, The *Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board ("FASB") Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure

In addition, this Statement eliminates the option, provided under GASB 20, to elect to apply non-conflicting post-1989 FASB standards. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in *Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term ‘deferred’ in financial statement presentations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

Also in March 2012, the GASB issued Statement No. 66, *Technical Corrections 2012*. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for certain operating lease payments, purchases of loans and mortgage loan servicing fees. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

In June 2012, the GASB issued two related accounting standards, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and expands required note disclosures and Required Supplementary Information. It is effective for periods beginning after June 15, 2013.

Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position (currently known as the statement of net assets) a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. Statement No. 68 also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. It is effective for periods beginning after June 15, 2014.

Foundation management is currently assessing the impact that implementation of GASB Statements No. 60, 61, 62, 63, 65, 66, 67 and 68 will have on the Foundation’s financial statements.

2. INVESTMENTS

A substantial portion of investments are held by the University in a pooled arrangement. The Foundation holds certain other investments that related to charitable arrangements. A summary of investments as of June 30, 2012 and 2011 are as follows:

	2012	2011
University Long-Term Investment Pool	$ 500,824,488	$ 484,426,575
Investments held by charitable remainder trusts	32,595,788	33,917,464
Marketable securities	16,117,964	16,849,586
Investment partnership	478,841	565,367
Life insurance policies	5,248,431	4,609,995
Real estate	1,008,621	-
Total investments	556,274,133	540,368,987
Less current portion	287,409	333,038
Long term investments	$ 555,986,724	$ 540,035,949

The Foundation's directly owned investments include all investments above, excluding the University Long-Term Investment Pool. Marketable securities and charitable remainder trust investments $48,713,752 and $50,767,050 at June 30, 2012 and 2011, respectively, consist primarily of various mutual fund investments.

Using the proportioned indirect ownership of investments held by the University in the University Long-Term Investment Pool and the investments directly owned by the Foundation, a summary of the investment mix is as follows at June 30, 2012 and 2011:

	2012	2011
Common stock	$ 53,579,670	$ 65,452,731
Equity mutual funds	43,532,553	40,708,058
U.S. government obligations	5,191,459	6,216,964
U.S. government agency obligations	2,766,675	2,971,282
Repurchase agreements	10,583,632	7,538,063
Corporate bonds and notes	11,029,007	22,334,941
Bond mutual funds	20,929,977	19,510,500
International bonds	5,982,837	7,568,293
Partnership and hedge funds	366,995,366	344,961,580
Real estate	1,950,533	868,640
Cash and cash equivalents	27,796,338	16,340,756
Other	5,936,087	5,897,179
Total	$ 556,274,134	$ 540,368,987

Interest Rate Risk

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

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2012, 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	$ 3,853,057	$ 639,954	$ 2,586,610	$ 626,493	$ -
Corporate Bond	279,496	-	279,496	-	-
Bond Mutual Funds	20,929,976	676,698	10,283,218	6,531,551	3,438,509
Total	$ 25,062,529	$ 1,316,652	$ 13,149,324	$ 7,158,044	$ 3,438,509

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2011, 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	$ 3,817,623	$ -	$ 1,953,271	$ 1,864,352	$ -
Corporate Bond	277,544	-	-	277,544	-
Bond Mutual Funds	19,510,500	570,156	11,062,740	5,216,061	2,661,543
Total	$ 23,605,668	$ 570,156	$ 13,016,011	$ 7,357,958	$ 2,661,543

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 credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2012, were as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	$ 15,739,301	$ -	$ 279,496	$ 15,459,805
Aa	4,589,080	3,853,057	-	736,023
A	2,939,284	-	-	2,939,284
Baa	1,794,864	-	-	1,794,864
Total	$ 25,062,529	$ 3,853,057	$ 279,496	$ 20,929,976

The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2011, were as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	$ 19,140,779	$ 3,817,623	$ 277,544	$ 15,045,611
Aa	910,837	-	-	910,837
A	1,857,394	-	-	1,857,394
Baa	1,696,658	-	-	1,696,658
Total	$ 23,605,668	$ 3,817,623	$ 277,544	$ 19,510,500

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, 2012, was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	$ 334,764	$ 10,590
Brazilian Real	161,803	(91)
Canadian Dollar	463,090	28,058
Chilean Peso	27,897	-
Chinese Yuan	234,335	-
Colombian Peso	5,579	-
Czech Republic - Koruna	16,738	-
Danish Krone	44,635	8,327
EURO	993,133	327,557
Great Britain Pound Sterling	875,965	78,110
Hong Kong Dollar	111,588	-
Hungarian Forint	5,579	-
India - Rupee	89,270	-
Indonesian Rupiah	39,056	(91)
Israeli Shekel	22,318	-
Japanese Yen	864,807	436,441
Malaysian Ringgit	50,215	91
Mexican Peso	61,373	25,162
New Taiwan Dollar	161,803	-
New Turkish Lira	5,579	-
New Zealand Dollar	39,056	905
Peruvian Nuevo Sol	11,159	-
Phillippine Peso	11,159	-
Polish Zloty	16,738	-
Russia - Rueble	72,532	-
Singapore Dollar	72,532	-
South African Rand	106,009	4,616
South Korean Won	206,438	181
Swedish Krona	117,167	3,892
Swiss Franc	301,287	-
Thailand Baht	33,476	-
Turkish Lira	22,318	-
	$ 5,579,398	$ 923,748

The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2011 was as follows:

	Equity Mutual Funds
Australian Dollar	$ 403,904
Brazilian Real	228,879
British Pound	969,369
Canadian Dollar	565,465
Chilean Peso	26,927
Chinese Yuan	276,001
Colombian Peso	6,732
Czech Republic - Koruna	6,732
Danish Krone	53,854
EURO	1,400,199
Hong Kong Dollar	127,903
Hungarian Forint	6,732
India - Rupee	121,171
Indonesian Rupiah	40,390
Israeli Shekel	33,659
Japanese Yen	955,905
Malaysian Ringgit	53,854
Mexican Peso	67,317
New Taiwan Dollar	195,220
New Turkish Lira	26,927
New Zealand Dollar	6,732
Norwegian Krone	47,122
Peruvian Nuevo Sol	6,732
Phillippine Peso	6,732
Polish Zloty	26,927
Russia - Rueble	100,976
Singapore Dollar	80,781
South African Rand	114,439
South Korean Won	235,610
Swedish Krona	148,098
Swiss Franc	363,513
Thailand Baht	26,927
	$ 6,731,729

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

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

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

Mutual funds held by the University include a wide range of investments, including hedge funds. These hedge funds may include, but are not limited to, investments in equity securities, mutual funds, limited and general partnerships, foreign securities, short sales positions, distressed securities, fixed income securities, options, currencies, commodities, futures, and derivatives. The University's objective for investing in these hedge funds is to provide stable, absolute returns that are uncorrelated to fluctuations in the stock and bond markets.

3. GIFT ANNUITIES

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

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

As of June 30, 2012 and 2011 the assets related to these investments had a fair market value of $16,102,000 and $16,833,700, respectively, a present value of annuities payable of $13,564,000 and $12,315,300, respectively and reserves of $2,580,000 and $4,546,000, respectively. The assets are recorded as Marketable Securities on the Consolidated Statement of Net Assets.

4. UNITRUST, ANNUITY TRUST, AND POOLED INCOME AGREEMENTS

An officer of the Foundation, acting as trustee, enters into unitrust, annuity trust, and pooled income agreements, which provide, among other matters, that the trustee shall pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until the death of the beneficiaries.

Upon death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated and by recording the present value of the annuity payable, based on the agreement, as a liability. The Foundation had charitable remainder trusts of $32,596,000 and $33,917,000, as of June 30, 2012 and June 30, 2011, respectively.

5. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of $301,861 and $359,000 as of June 30, 2012 and 2011, respectively. The Foundation distributed $160,415,000 and $83,281,000, in fiscal years 2012 and 2011, respectively, to the University as directed by donors. The Foundation had receivables from the University of $804,000 and $658,000, as of June 30, 2012 and 2011, respectively.

The Foundation invests its gifted endowment funds in the University Long-Term Investment Pool. The University employs the share method of accounting for pooled investments and for proportionate distribution of income to each fund which participates in the pool.

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

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:

We have audited the financial statements of The Ohio State University Foundation (the "Foundation") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foundation's financial statements are free of 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*.

We noted certain matters that we reported to management of the Foundation in a separate letter dated October 15, 2012.

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

PricewaterhouseCoopers LLP

October 15, 2012

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THE OHIO STATE UNIVERSITY FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 27, 2012