

# **The Ohio University Foundation and Subsidiaries**

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**Consolidated Financial Statements as of and  
for the Years Ended June 30, 2015 and 2014  
with Supplementary Schedules as of and  
for the Year Ended June 30, 2015 and  
Independent Auditor's Report**





# Dave Yost • Auditor of State

Board of Trustees  
The Ohio University Foundation and Subsidiaries  
West Union Street Office Center, Suite 275  
1 Ohio University  
Athens, OH 45701-2979

We have reviewed the *Independent Auditor's Report* of The Ohio University Foundation and Subsidiaries, Athens County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2014 through June 30, 2015. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 17, 2015

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# The Ohio University Foundation and Subsidiaries

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## Independent Auditor's Report

To the Board of Trustees  
The Ohio University Foundation and Subsidiaries

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Ohio University Foundation, an Ohio non-for-profit corporation, and Subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees  
The Ohio University Foundation and Subsidiaries

***Opinion***

In our opinion, 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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As further explained in Note 5, the consolidated financial statements include investments that are not listed on national exchanges nor for which quoted market prices are available. These investments include limited partnerships, hedge funds, funds-of-funds, and commingled funds that are not mutual funds. Such investments totaled \$102,359,346 (20.0 percent of net assets) and \$106,152,848 (20.5 percent of net assets) at June 30, 2015 and 2014, respectively. Where a publicly listed price is not available, management uses alternative sources of information including the funds' audited financial statements, unaudited interim reports, lists of underlying fund holdings, and similar evidence provided by the fund managers to determine fair values of the investments. Our opinion is not modified with respect to this matter.

***Other Matters***

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the consolidated financial statements of the Foundation taken as a whole. The consolidating information, as identified on pages 28-31, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

To the Board of Trustees  
The Ohio University Foundation and Subsidiaries

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2015 on our consideration of the The Ohio University Foundation and Subsidiaries' 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* in considering The Ohio University Foundation and Subsidiaries' internal control over financial reporting and compliance.

*Plante & Morse, PLLC*

October 5, 2015

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Financial Position June 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 16,833,423	\$ 21,882,396
Accounts receivable - Net	553,429	320,720
Pledges receivable - Net	19,412,286	13,730,255
Bequests receivable	2,706,305	1,168,065
Interest and dividends receivable	79,546	43,936
Prepaid expenses	788,814	772,675
Investments	452,529,565	459,313,751
Cash surrender value - Life insurance policies	1,143,126	1,223,349
Charitable gift annuities	2,408,258	2,588,573
Charitable trusts	18,167,908	18,346,809
Deposits with trustees - Restricted cash	4,156,544	3,883,034
Property and equipment - Net	29,721,811	29,775,131
Other assets	720,542	576,273
	<u>549,221,557</u>	<u>553,624,967</u>
Total assets	<b>\$ 549,221,557</b>	<b>\$ 553,624,967</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable:		
Ohio University	\$ 1,419,176	\$ 956,403
Trade and other	1,575,233	1,532,049
Deposits held in custody for others	395,616	372,213
Annuities payable	1,853,312	1,897,276
Charitable trusts obligations	4,122,145	3,959,145
Bonds payable	24,285,000	25,150,000
Notes payable	2,051,200	2,325,000
Other liabilities	532,327	427,655
	<u>36,234,009</u>	<u>36,619,741</u>
Total liabilities	36,234,009	36,619,741
<b>Net Assets</b>		
Unrestricted	3,321,433	2,932,514
Temporarily restricted	317,271,534	334,743,124
Permanently restricted	192,394,581	179,329,588
	<u>512,987,548</u>	<u>517,005,226</u>
Total net assets	512,987,548	517,005,226
Total liabilities and net assets	<b>\$ 549,221,557</b>	<b>\$ 553,624,967</b>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and other support:</b>				
Gifts and contributions	\$ 331,783	\$ 17,185,679	\$ 13,680,523	\$ 31,197,985
University support	4,116,877	-	-	4,116,877
<b>Income from investments:</b>				
Interest and dividends	348,624	6,954,520	-	7,303,144
Sold during the year (realized gain)	2,025,390	38,943,461	506,443	41,475,294
Held at year end (unrealized loss)	(2,065,898)	(51,450,707)	(685,896)	(54,202,501)
Revenue from sales, services, and events	456,351	98,694	870	555,915
Change in value of split-interest agreements	38,969	(422,668)	(207,549)	(591,248)
Administrative fee income	6,461,268	(6,461,268)	-	-
Other	63,684	827,332	(229,398)	661,618
Related entity revenue	8,633,820	1,454,795	-	10,088,615
<b>Total revenue and other support</b>	<b>20,410,868</b>	<b>7,129,838</b>	<b>13,064,993</b>	<b>40,605,699</b>
<b>Net assets released from restrictions - Satisfaction of program restrictions:</b>				
Academic support	1,582,956	(1,582,956)	-	-
Alumni relations	55,834	(55,834)	-	-
Fundraising and development	153,463	(153,463)	-	-
Institutional support	1,217,895	(1,217,895)	-	-
Instruction and departmental research	12,334,284	(12,334,284)	-	-
Intercollegiate athletics	1,067,855	(1,067,855)	-	-
Public service	464,248	(464,248)	-	-
Research	621,308	(621,308)	-	-
Student aid	5,240,972	(5,240,972)	-	-
Student services	458,854	(458,854)	-	-
Related entity operations	1,403,759	(1,403,759)	-	-
<b>Total net assets released from restrictions</b>	<b>24,601,428</b>	<b>(24,601,428)</b>	<b>-</b>	<b>-</b>
<b>Total revenue, other support, and net assets released from restrictions</b>	<b>45,012,296</b>	<b>(17,471,590)</b>	<b>13,064,993</b>	<b>40,605,699</b>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities (Continued) Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Program services:				
Academic support	\$ 1,582,956	\$ -	\$ -	\$ 1,582,956
Alumni relations	2,447,845	-	-	2,447,845
Institutional support	1,338,092	-	-	1,338,092
Instruction and departmental research	12,340,204	-	-	12,340,204
Intercollegiate athletics	1,067,855	-	-	1,067,855
Public service	464,248	-	-	464,248
Research	621,428	-	-	621,428
Student aid	5,240,972	-	-	5,240,972
Student services	458,854	-	-	458,854
Support services:				
Fundraising and development	9,375,913	-	-	9,375,913
Fund administration	763,014	-	-	763,014
Related entity operations	8,921,996	-	-	8,921,996
Total expenses	<u>44,623,377</u>	<u>-</u>	<u>-</u>	<u>44,623,377</u>
<b>Changes in Net Assets</b>	388,919	(17,471,590)	13,064,993	(4,017,678)
<b>Net Assets - Beginning of year</b>	<u>2,932,514</u>	<u>334,743,124</u>	<u>179,329,588</u>	<u>517,005,226</u>
<b>Net Assets - End of year</b>	<u><b>\$ 3,321,433</b></u>	<u><b>\$ 317,271,534</b></u>	<u><b>\$ 192,394,581</b></u>	<u><b>\$ 512,987,548</b></u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Gifts and contributions	\$ 236,232	\$ 9,234,317	\$ 9,658,380	\$ 19,128,929
University support	5,166,862	-	-	5,166,862
Income from investments:				
Interest and dividends	372,336	7,619,661	-	7,991,997
Sold during the year (realized gain)	1,103,934	21,979,396	292,566	23,375,896
Held at year end (unrealized gain)	1,673,873	31,752,172	427,513	33,853,558
Revenue from sales, services, and events	488,632	81,145	1,982	571,759
Change in value of split-interest agreements	(43,015)	1,113,579	100,345	1,170,909
Administrative fee income	5,796,440	(5,796,440)	-	-
Other	84,510	256,160	(2,963)	337,707
Related entity revenue	8,788,468	2,486,663	-	11,275,131
Total revenue and other support	<u>23,668,272</u>	<u>68,726,653</u>	<u>10,477,823</u>	<u>102,872,748</u>
Net assets released from restrictions - Satisfaction of program restrictions:				
Academic support	1,412,427	(1,412,427)	-	-
Alumni relations	4,824	(4,824)	-	-
Fundraising and development	171,543	(171,543)	-	-
Institutional support	1,473,255	(1,473,255)	-	-
Instruction and departmental research	9,544,260	(9,544,260)	-	-
Intercollegiate athletics	935,969	(935,969)	-	-
Public service	311,569	(311,569)	-	-
Research	568,683	(568,683)	-	-
Student aid	4,459,077	(4,459,077)	-	-
Student services	208,641	(208,641)	-	-
Related entity operations	1,242,089	(1,242,089)	-	-
Total net assets released from restrictions	<u>20,332,337</u>	<u>(20,332,337)</u>	<u>-</u>	<u>-</u>
Total revenue, other support, and net assets released from restrictions	<u>44,000,609</u>	<u>48,394,316</u>	<u>10,477,823</u>	<u>102,872,748</u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities (Continued) Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Program services:				
Academic support	\$ 1,412,427	\$ -	\$ -	\$ 1,412,427
Alumni relations	2,323,681	-	-	2,323,681
Institutional support	1,644,633	-	-	1,644,633
Instruction and departmental research	9,549,706	-	-	9,549,706
Intercollegiate athletics	935,969	-	-	935,969
Public service	311,569	-	-	311,569
Research	572,530	-	-	572,530
Student aid	4,459,077	-	-	4,459,077
Student services	208,641	-	-	208,641
Support services:				
Fundraising and development	8,817,207	-	-	8,817,207
Fund administration	756,207	-	-	756,207
Related entity operations	8,862,851	-	-	8,862,851
Total expenses	<u>39,854,498</u>	<u>-</u>	<u>-</u>	<u>39,854,498</u>
<b>Changes in Net Assets</b>	4,146,111	48,394,316	10,477,823	63,018,250
<b>Net Assets (Deficit) - Beginning of year</b>	<u>(1,213,597)</u>	<u>286,348,808</u>	<u>168,851,765</u>	<u>453,986,976</u>
<b>Net Assets - End of year</b>	<u><b>\$ 2,932,514</b></u>	<u><b>\$ 334,743,124</b></u>	<u><b>\$ 179,329,588</b></u>	<u><b>\$ 517,005,226</b></u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Cash Flows

	Years Ended June 30	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (4,017,678)	\$ 63,018,250
Adjustments to reconcile changes in net assets to net cash from operating activities		
Realized investment gains - Net	(41,475,294)	(23,375,896)
Noncash items:		
Depreciation and amortization	1,890,023	1,704,632
Loss on disposition of property	510,711	3,413
Unrealized investment losses (gains) - Net	54,202,501	(33,853,558)
Decrease in cash surrender value of life insurance policies	80,223	40,867
Decrease (increase) in investments subject to annuity agreements	189,312	(54,176)
Decrease (increase) in charitable remainder trust assets	482,907	(1,256,620)
Decrease (increase) in annuity obligations	(43,964)	43,226
Decrease in trust obligations	163,000	332,047
Contributions of securities	(1,207,039)	(846,411)
Contributions of land and buildings	-	(305,547)
Contributions restricted for endowment investments	(13,680,523)	(9,658,380)
Changes in current assets and liabilities:		
Decrease (increase) in accounts receivable	(218,724)	25,403
Decrease (increase) in pledges receivable	(5,682,031)	1,693,185
Decrease (increase) in bequests receivable	(1,538,240)	183,026
Decrease (increase) in interest and dividends receivable	(35,610)	28,728
Increase in prepaid expenses	(38,926)	(19,230)
Decrease (increase) in other assets	(172,524)	9,757
Increase (decrease) in accounts payable	491,972	(199,819)
Increase in other liabilities	104,672	78,310
Increase (decrease) in deposits held in custody for others	23,403	(46,265)
Net cash used in operating activities	<u>(9,971,829)</u>	<u>(2,455,058)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(2,531,002)	(1,241,126)
Proceeds from sales of property and equipment	234,630	-
Purchases of investments	(290,714,504)	(121,384,111)
Proceeds from sales of investments	285,978,522	130,521,526
Contributions to new charitable gift annuities	(116,686)	(235,260)
Payments on charitable gift annuities	107,689	81,523
Contributions to new charitable remainder trusts	(516,498)	(100,000)
Payments on charitable remainder trusts	212,492	206,436
Net cash (used in) provided by investing activities	<u>(7,345,357)</u>	<u>7,848,988</u>
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for endowment investment	13,680,523	9,658,380
Payments on notes and bonds payable	(1,138,800)	(1,287,400)
Decrease (increase) in restricted cash	(273,510)	45,500
Net cash provided by financing activities	<u>12,268,213</u>	<u>8,416,480</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(5,048,973)</u>	<u>13,810,410</u>
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>21,882,396</u>	<u>8,071,986</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 16,833,423</u></b>	<b><u>\$ 21,882,396</u></b>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid during the year for interest	\$ 83,130	\$ 97,780
Cash paid for income taxes	81,700	123,100
<b>Supplemental Disclosure of Noncash Activities -</b>		
Contributions of securities	\$ 1,207,039	\$ 846,411
Contributions of land and buildings	-	305,547

The Notes to Consolidated Financial Statements  
are an Integral Part of this Statement.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 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 139-room hotel and restaurant facility in Athens, Ohio known as The Ohio University Inn (see Note 10).

Another controlled entity, Housing for Ohio, Inc. ("Housing"), constructed and operates a 182-unit student housing facility in Athens, Ohio (see Note 11). It has been granted tax-exempt status under Section 501(a)(3) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3).

The Foundation entered into an agreement with the Sugar Bush Foundation ("Sugar Bush"), an Ohio not-for-profit corporation, in August 2005. Sugar Bush is a supporting organization as defined in Code Section 509(a)(3) and the Foundation is its primary supported organization receiving 51 percent of its charitable distributions. This agreement was further amended in August 2007 with Sugar Bush pledging to commit all of its charitable distributions to the Foundation. Upon dissolution of Sugar Bush and payment of all Sugar Bush liabilities, all of its assets shall be transferred to the Foundation, provided the Foundation is then recognized as a nonprofit Ohio corporation and as a tax-exempt organization under Section 501(c)(3) of the Code. The Foundation consolidates this supporting organization that is deemed to be financially interrelated.

During 2009, the Foundation created three limited liability companies to receive property distributions from The Dolores H. Russ Trust for the benefit of the Russ College of Engineering. The three limited liability companies are Fritz J. and Dolores H. Russ Holdings LLC, Russ North

Valley Road LLC, and Russ Research Center LLC (collectively referred to as the "Russ LLCs"). The limited liability companies are treated as disregarded entities for federal income tax purposes. The Foundation is the sole member of Fritz J. and Dolores H. Russ Holdings LLC. Fritz J. and Dolores H. Russ Holdings LLC is the sole member of Russ North Valley Road LLC and Russ Research Center LLC.

### Note 2 - Summary of Significant Accounting Policies

**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 activities of the Foundation and its wholly owned subsidiary and other related entities - the Inn, Housing, one supporting organization, and three limited liability companies. All intercompany transactions have been eliminated.

**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 consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk** - Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of pledges receivable, investments for the Foundation, and receivables related to operations of the Inn and Russ Research Center LLC. Exposure to losses on pledges receivable is principally dependent on each donor's financial condition. The Foundation monitors the exposure for credit losses and maintains allowances for anticipated losses on receivables.

Investments are recorded at fair value. Investment securities are exposed to various risks, such as interest rate, market, and credit

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

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 consolidated statements of financial position and activities.

The management companies that operate the Inn and the Russ Research Center are responsible for collection of receivables. Each entity provides a reserve for any estimated uncollectible balances, as appropriate.

**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 as unrestricted net assets and reported in the consolidated statements 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 are held in charitable trusts 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 9).

**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 an assumed inflation rate at the time the pledge is made. The discount rate utilized was 2.86 and 4.86 percent for the years ended June 30, 2015 and 2014, respectively. Amortization of the discounts is included in contribution revenue. 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 temporarily restricted net assets. Conditional promises to give are not included as support until the conditions on which they depend are substantially met.

**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 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.

**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.

**Investments** - Investments in securities are recorded at fair value based on quoted market values, with changes in market value during the year reflected in the consolidated statements of activities. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Alternatives are recorded at their most recent available valuation as provided by the investment custodian. Purchases and sales of investments are accounted for as of the trade date. See Note 5 for the valuation policy for alternative investments.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

**Income from Investments** - All investment income earned on permanently restricted, temporarily restricted, and unrestricted investments is credited to unrestricted net assets unless otherwise restricted by the donor or by state law.

**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 20 to 40 years using the straight-line method. Depreciation and amortization of other property, equipment, and improvements are recorded over periods ranging from 3 to 15 years using the straight-line method.

Annually, or more frequently if events or circumstances change, a determination is made by management to ascertain whether property and equipment and intangibles have been impaired based on the sum of expected future undiscounted cash flows from operating activities. If the estimated net cash flows are less than the carrying amount of such assets, the Foundation will recognize an impairment loss in an amount necessary to write down the assets to a fair value as determined from expected future discounted cash flows. Based upon its most recent analysis, the Foundation has determined that no impairment to the carrying value of its long-lived assets existed at June 30, 2015 and 2014.

**Cash** - At times, cash may exceed federally insured amounts. The Foundation believes it mitigates risks by depositing cash with major financial institutions. The Foundation held \$18,968,322 and \$23,904,650 in cash that was uninsured by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2015 and 2014, respectively.

**Cash Equivalents** - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

**Restricted Cash** - Restricted cash represents cash that, under terms of the bond issue trust

indenture agreement (the "Trust Indenture") (related to Housing for Ohio, Inc., see Note 11), is restricted for various purposes. In accordance with the terms of the Trust Indenture and related agreements, the proceeds from the bonds not used to construct the student housing facility and certain equipment and improvements were deposited with the trustee. The Foundation is also required to deposit all revenue directly into a designated revenue fund. The trustee is then authorized, without further direction from the Foundation, to transfer funds out of the revenue fund to other funds as outlined in the Trust Indenture.

**Functional Allocation of Expenses** - The costs of providing the various programs and support services have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and support services benefited. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

**Income Taxes** - The Internal Revenue Service has determined that the Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated income. The provision for income taxes for the Inn, including deferred tax expenses, totaled \$156,506 and \$308,849 for the years ended June 30, 2015 and 2014, respectively. The provision is mostly comprised of federal and city taxes. Of these amounts, \$80,206 and \$210,587 represent current tax expense for the years ended June 30, 2015 and 2014, respectively. The deferred taxes are a result of differences between book and tax depreciation and are presented as long-term other liabilities on the statements of financial position.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and to recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

has concluded that as of June 30, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that it is no longer subject to income tax examinations for years prior to June 30, 2012.

**Fair Value of Financial Instruments** - The carrying values of the Foundation's financial instruments in the accompanying consolidated statements of financial position approximate their respective estimated fair value at June 30, 2015 and 2014.

The Foundation has estimated the fair values of its financial instruments using available quoted market information and other valuation methodologies. 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 significant effect on the estimated fair value amounts.

The fair values of short-term financial instruments, including cash equivalents and trade accounts receivable and payable, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments. The fair value of long-term obligations approximates the carrying amounts in the accompanying consolidated financial statements. The carrying value of the debt approximates fair value based on current borrowing rates. The inputs are based upon terms in contractual agreements. The fair value of these financial instruments is determined using Level 2 inputs (see Note 5).

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

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including October 5, 2015, which is the date the consolidated financial statements were issued.

### Note 3 - Net Assets

**Unrestricted Net Assets** - The unrestricted net assets consist of operating funds available for any purpose authorized by the board of trustees.

Unrestricted net assets as of June 30, 2015 and 2014 are available for the following purposes:

	2015	2014
Designated:		
Board-designated 1804 grants	\$ 8,552	\$ 9,050
Designated underwater accounts	(12,377)	(569,243)
Subtotal designated	(3,825)	(560,193)
Undesignated:		
The Inn	4,644,351	4,256,854
Housing	315,436	(412,650)
Other	(1,634,529)	(351,497)
Subtotal undesignated	3,325,258	3,492,707
Total unrestricted net assets	\$ 3,321,433	\$ 2,932,514

### 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 are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Foundation.

Temporarily restricted net assets as of June 30, 2015 and 2014 are available for the following purposes:

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

	2015	2014
Academic support	\$ 14,656,172	\$ 15,769,107
Alumni relations	227,952	275,208
Fundraising and development	841,831	837,161
Institutional support	12,877,689	13,174,063
Instruction and departmental research	216,585,362	230,135,953
Intercollegiate athletics	6,489,711	2,572,565
Public service	576,748	635,306
Research	2,474,275	2,061,759
Student aid	60,681,301	67,026,056
Student services	1,860,493	2,255,946
<b>Total</b>	<b>\$ 317,271,534</b>	<b>\$ 334,743,124</b>

### 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. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless otherwise restricted by the donor or by applicable state laws.

Permanently restricted net assets as of June 30, 2015 and 2014 are available for the following purposes:

	2015	2014
Academic support	\$ 9,814,599	\$ 8,819,357
Alumni relations	20,348	80,246
Fundraising and development	106,718	85,130
Institutional support	3,435,413	3,430,066
Instruction and departmental research	80,523,523	76,966,181
Intercollegiate athletics	1,959,091	1,727,067
Public service	1,371,273	364,768
Research	1,200,825	1,198,798
Student aid	91,065,442	83,816,781
Student services	2,897,349	2,841,194
<b>Total</b>	<b>\$ 192,394,581</b>	<b>\$ 179,329,588</b>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 4 - Pledges Receivable

The following amounts are included in pledges receivable for unconditional promises to give at June 30, 2015 and 2014:

At June 30, 2015	Temporarily Restricted	Permanently Restricted	Total
Gross amounts due in:			
Less than one year	\$ 6,375,093	\$ 4,166,582	\$ 10,541,675
One to five years	7,835,831	4,935,941	12,771,772
More than five years	1,603,700	142,857	1,746,557
Gross pledges receivable	15,814,624	9,245,380	25,060,004
Less allowance for uncollectible pledges	(2,489,029)	(1,455,111)	(3,944,140)
Less discount to present value	(1,257,190)	(446,388)	(1,703,578)
Total pledges receivable - Net	<u>\$ 12,068,405</u>	<u>\$ 7,343,881</u>	<u>\$ 19,412,286</u>
At June 30, 2014	Temporarily Restricted	Permanently Restricted	Total
Gross amounts due in:			
Less than one year	\$ 5,244,534	\$ 3,972,069	\$ 9,216,603
One to five years	3,327,703	5,907,097	9,234,800
More than five years	56,767	19,957	76,724
Gross pledges receivable	8,629,004	9,899,123	18,528,127
Less allowance for uncollectible pledges	(1,827,592)	(2,096,598)	(3,924,190)
Less discount to present value	(290,698)	(582,984)	(873,682)
Total pledges receivable - Net	<u>\$ 6,510,714</u>	<u>\$ 7,219,541</u>	<u>\$ 13,730,255</u>

The allowance for uncollectible contributions is a general valuation based on the percentage of prior years' pledge write-offs. Specific pledges deemed uncollectible are charged against the allowance for uncollectible pledges in the period in which the determination is made. Both the general allowance and the specific write-offs are reported as a loss on fair value of pledges receivable in the statement of activities. As of June 30, 2015, the Foundation has approximately \$156 million in numerous outstanding pledges that are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as pledges receivable or recognized as revenue because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

### Note 5 - Fair Value Measurements

The Foundation's investments include endowed funds, as well as a portion of working capital funds. The Foundation's investment policy provides that the long-term objective of the investment pool is to maximize the real return, or the nominal return less inflation, of the assets over a complete market cycle with emphasis on preserving capital and reducing volatility through prudent diversification. Further, the investment strategy seeks to provide real growth of assets in excess of endowment spending requirements plus inflation.

The Foundation reports investments and split-interest agreements at estimated fair value, in accordance with the fair value hierarchy prescribed by Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value, as follows:

**Level 1** - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. The Foundation's Level 1 assets consist primarily of fixed-income or equity mutual funds, publicly traded large- and small-cap stocks, and REITs. Prices for these investments are widely available through major financial reporting services.

**Level 2** - Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. The Foundation's Level 2 assets include government and corporate bonds, as well as commingled money market, bond, and equity funds that are not registered with the Securities and Exchange Commission and do not trade on an exchange.

**Level 3** - Inputs that are unobservable, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. The Foundation's Level 3 assets include allocations to commodities, hedge funds, private equity,

private real estate, and venture capital funds. The Foundation's Level 3 assets also include split-interest agreements that are valued using an actuarial approach. The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include quarterly meetings with the Foundation's investment committee for calibration and review of Level 3 investment monthly or quarterly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market. The Foundation utilizes a third-party investment advisor to monitor, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the least observable input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The Foundation's fair value assets and liabilities, by level, at June 30, 2015 and 2014 are summarized in the following tables:

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	June 30, 2015	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Fixed-income investments:				
Money market mutual funds	\$ 21,834,284	\$ 21,803,580	\$ 30,704	\$ -
Bonds and bond mutual funds	44,223,672	41,416,786	2,806,886	-
TIPS mutual funds	14,717,852	14,717,852	-	-
Subtotal fixed income	<u>80,775,808</u>	<u>77,938,218</u>	<u>2,837,590</u>	<u>-</u>
Public equity investments:				
Domestic large-cap equity	81,326,912	81,326,912	-	-
Domestic small-cap equity	11,110,312	11,110,312	-	-
REITs	5,226,169	5,226,169	-	-
Developed international equity	98,229,378	98,229,378	-	-
Emerging markets international equity	45,229,034	33,998,744	11,230,290	-
Commodities	28,272,606	28,272,606	-	-
Subtotal public equity	<u>269,394,411</u>	<u>258,164,121</u>	<u>11,230,290</u>	<u>-</u>
Alternative investments:				
Commodities (1)	7,037,763	-	-	7,037,763
Hedge funds (2)	65,338,993	-	-	65,338,993
Private equity funds (3)	20,214,090	-	-	20,214,090
Private real estate funds (4)	6,905,218	-	-	6,905,218
Venture capital funds (5)	2,863,282	-	-	2,863,282
Subtotal alternative investments	<u>102,359,346</u>	<u>-</u>	<u>-</u>	<u>102,359,346</u>
Total investments	<u>\$ 452,529,565</u>	<u>\$ 336,102,339</u>	<u>\$ 14,067,880</u>	<u>\$ 102,359,346</u>
<b>Split-interest Agreements Assets</b>				
Charitable gift annuities (6)	\$ 2,408,258	\$ 2,090,409	\$ 317,849	\$ -
Charitable trusts (6)	18,167,908	16,377,131	608,429	1,182,348
Total split-interest agreements	<u>\$ 20,576,166</u>	<u>\$ 18,467,540</u>	<u>\$ 926,278</u>	<u>\$ 1,182,348</u>
Total fair value measurements	<u>\$ 473,105,731</u>	<u>\$ 354,569,879</u>	<u>\$ 14,994,158</u>	<u>\$ 103,541,694</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

	June 30, 2014	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Fixed-income investments:				
Money market mutual funds	\$ 13,896,973	\$ 13,865,404	\$ 31,569	\$ -
Bonds and bond mutual funds	45,573,257	42,005,508	3,567,749	-
TIPS mutual funds	14,976,295	14,976,295	-	-
Subtotal fixed income	74,446,525	70,847,207	3,599,318	-
Public equity investments:				
Domestic large-cap equity	97,867,695	97,867,695	-	-
Domestic small-cap equity	10,407,808	10,407,808	-	-
REITs	4,957,238	4,957,238	-	-
Developed international equity	96,971,097	96,971,097	-	-
Emerging markets international equity	44,240,624	32,098,926	12,141,698	-
Commodities	24,269,916	24,269,916	-	-
Subtotal public equity	278,714,378	266,572,680	12,141,698	-
Alternative investments:				
Commodities (1)	9,211,309	-	-	9,211,309
Hedge funds (2)	64,993,331	-	-	64,993,331
Private equity funds (3)	18,967,577	-	-	18,967,577
Private real estate funds (4)	8,486,977	-	-	8,486,977
Venture capital funds (5)	4,493,654	-	-	4,493,654
Subtotal alternative investments	106,152,848	-	-	106,152,848
Total investments	\$ 459,313,751	\$ 337,419,887	\$ 15,741,016	\$ 106,152,848
<b>Split-interest Agreements Assets</b>				
Charitable gift annuities (6)	\$ 2,588,573	\$ 2,275,895	\$ 312,678	\$ -
Charitable trusts (6)	18,346,809	17,173,803	439,530	733,476
Total split-interest agreements	\$ 20,935,382	\$ 19,449,698	\$ 752,208	\$ 733,476
Total fair value measurements	\$ 480,249,133	\$ 356,869,585	\$ 16,493,224	\$ 106,886,324

- (1) Commodities funds investing in areas that offer strong relative performance in rising inflation environments and are broadly diversified across the commodities markets, including futures, options on futures, and forward contracts on exchange-traded agricultural goods, metals, minerals, and energy products. The fair value of this investment has been estimated using the net asset value per share of the investment.
- (2) Hedge funds broadly diversified across managers, investment strategies, and investment venues. Includes both fund investments as well as fund-of-funds investments. The fair value of this investment has been estimated using the net asset value per share of the investment.
- (3) Private equity funds broadly diversified across managers, investment stages, geography, industry sectors, and company size. Includes individual fund investments, as well as fund-of-funds investments. The fair value of this investment has been estimated using the net asset value per share of the investment.
- (4) Private real estate funds broadly diversified across managers, investment strategies, geography, and industry sectors. The fair value of this investment has been estimated using the net asset value per share of the investment.
- (5) Venture capital funds with the objective of investing in early stage business entities and enterprises with a primary focus on medical and information technologies. The fair value of this investment has been estimated using the net asset value per share of the investment.

# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2015 and 2014

(6) Level 1 and Level 2 assets represent the Foundation's interest in trusts and annuities in which the Foundation is the trustee. Level 1 assets are invested in a variety of domestic and international equity mutual funds, fixed income mutual funds, and REITs. Level 2 assets are invested in money market mutual funds and U.S. Treasury bonds and notes. Level 3 assets represent real estate assets held in trust, as well as the present value of the revenue expected to be received from charitable trusts where the Foundation does not serve as trustee. The Foundation estimates the fair value of these assets based upon the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of beneficiaries, payment periods, and a discount rate commensurate with market conditions and other risks involved. Significant changes in these key assumptions would result in a significantly lower or higher fair value measurement.

Investments are reported as Level 3 assets if the valuation is based on significant unobservable inputs. Often, these assets trade infrequently, or not at all. For some Level 3 assets, both observable and unobservable inputs may be used to determine fair value. As a result, the unrealized gains and losses presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the beginning of the reporting period. For the fiscal years ended June 30, 2015 and June 30, 2014, there were no transfers between levels of the fair value hierarchy.

Additional information on the changes in Level 3 assets is summarized in the tables below as of June 30, 2015 and 2014:

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Year Ended June 30, 2015

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Total Level 3 Investments	Alternative Investments	
		Commodities	Hedge Funds
Beginning balance	\$ 106,152,848	\$ 9,211,309	\$ 64,993,331
Gains (losses) included in changes in net assets:			
Realized gains (losses)	3,395,685	(5,956)	(4,260)
Unrealized gains (losses)	(3,854,962)	(2,092,190)	1,798,705
Total gains (losses)	(459,277)	(2,098,146)	1,794,445
Purchases and sales:			
Purchases	7,033,546	118,345	-
Sales	(10,367,771)	(193,745)	(1,448,783)
Total purchases and sales	(3,334,225)	(75,400)	(1,448,783)
Ending balance	\$ 102,359,346	\$ 7,037,763	\$ 65,338,993

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Continued)		
	Alternative Investments (Continued)		
	Private Equity Funds	Private Real Estate Funds	Venture Capital Funds
Beginning balance	\$ 18,967,577	\$ 8,486,977	\$ 4,493,654
Gains (losses) included in changes in net assets:			
Realized gains (losses)	3,405,901	-	-
Unrealized gains (losses)	(2,585,579)	737,843	(1,713,741)
Total gains (losses)	820,322	737,843	(1,713,741)
Purchases and sales:			
Purchases	6,729,776	90,533	94,892
Sales	(6,303,585)	(2,410,135)	(11,523)
Total purchases and sales	426,191	(2,319,602)	83,369
Ending balance	\$ 20,214,090	\$ 6,905,218	\$ 2,863,282

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Continued) Split-interest Agreements
	Charitable Trust Assets
Beginning balance	\$ 733,476
Change in value of split-interest agreements included in changes in net assets:	
Change in actuarial estimate	408,277
Total change in value	448,872
Ending balance	\$ 1,182,348

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Year Ended June 30, 2014

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Total Level 3 Investments	Alternative Investments	
		Commodities	Hedge Funds
Beginning balance	\$ 93,789,496	\$ 8,845,589	\$ 53,634,717
Gains (losses) included in changes in net assets:			
Realized gains (losses)	4,903,860	(4,194)	2,502,628
Unrealized gains (losses)	4,930,034	1,051,539	5,032,343
Total gains (losses)	9,833,894	1,047,345	7,534,971
Purchases and sales:			
Purchases	32,999,878	68,160	26,280,674
Sales	(30,470,420)	(749,785)	(22,457,031)
Total purchases and sales	2,529,458	(681,625)	3,823,643
Ending balance	\$ 106,152,848	\$ 9,211,309	\$ 64,993,331

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Continued)		
	Alternative Investments (Continued)		
	Private Equity Funds	Private Real Estate Funds	Venture Capital Funds
Beginning balance	\$ 15,726,432	\$ 10,880,456	\$ 4,702,302
Gains (losses) included in changes in net assets:			
Realized gains (losses)	2,405,426	-	-
Unrealized gains (losses)	357,821	(1,123,403)	(388,266)
Total gains (losses)	2,763,247	(1,123,403)	(388,266)
Purchases and sales:			
Purchases	6,157,654	313,772	179,618
Sales	(5,679,756)	(1,583,848)	-
Total purchases and sales	477,898	(1,270,076)	179,618
Ending balance	\$ 18,967,577	\$ 8,486,977	\$ 4,493,654

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Continued)
	Split-interest Agreements
	Charitable Trust Assets
Beginning balance	\$ 821,252
Change in value of split-interest agreements included in changes in net assets:	
Change in actuarial estimate	(87,776)
Total change in value	(87,776)
Ending balance	\$ 733,476

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Certain investments measured at net asset value per share (or its equivalent) may be classified within Level 2 of the fair value

hierarchy if the investment can be redeemed at, or within 1-10 days. If the investment holdings cannot be redeemed at, or within this timeframe, due to redemption restrictions or other factors, then the investment is classified within Level 3 of the fair value hierarchy. Although the Foundation considers all available data in reporting the fair value of investments, the NAV, or its equivalent, is used as the primary valuation input for some Level 2 and most Level 3 assets.

The following tables provide additional information regarding the fair value, liquidity, and unfunded commitment for investments where the NAV was used as a practical expedient.

#### Level 2 and Level 3 Investments Reported at Net Asset Value at June 30, 2015

	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Termination Date (Fiscal Year)	Unfunded Commitment
Fixed-income investments:					
Money market mutual funds (Level 2)	\$ 30,704	daily	none	not applicable	\$ -
Bonds and bond mutual funds (Level 2)	1,063,765	daily	1 day	not applicable	-
Subtotal fixed income	<u>1,094,469</u>				<u>-</u>
Public equity investments:					
Emerging markets international equity mutual funds (Level 2)	11,230,290	monthly	30 days	not applicable	-
Alternative investments:					
Commodities (Level 3)	7,037,763	monthly	10 - 30 days	not applicable	-
Hedge funds (Level 3)	65,338,993	quarterly	60 days	not applicable	-
Private equity funds (Level 3)	20,214,090	not liquid	not liquid	2015 - 2022	23,255,639
Private real estate funds (Level 3)	6,819,428	not liquid	not liquid	2015 - 2018	281,033
Venture capital funds (Level 3)	2,863,282	not liquid	not liquid	2015 - 2015	168,088
Subtotal alternative investments	<u>102,273,556</u>				<u>23,704,760</u>
Total investments	<u>\$ 114,598,315</u>				<u>\$ 23,704,760</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Level 2 and Level 3 Investments Reported at Net Asset Value at June 30, 2014

	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Termination Date (Fiscal Year)	Unfunded Commitment
Fixed-income investments:					
Money market mutual funds (Level 2)	\$ 31,569	daily	none	not applicable	\$ -
Bonds and bond mutual funds (Level 2)	2,147,675	daily	1 day	not applicable	-
Subtotal fixed income	<u>2,179,244</u>				<u>-</u>
Public equity investments:					
Emerging markets international equity mutual funds (Level 2)	12,141,698	monthly	30 days	not applicable	-
Alternative investments:					
Commodities (Level 3)	9,211,309	monthly	10 - 30 days	not applicable	-
Hedge funds (Level 3)	64,993,331	quarterly	60 days	not applicable	-
Private equity funds (Level 3)	18,967,577	not liquid	not liquid	2014 - 2022	18,116,229
Private real estate funds (Level 3)	8,486,977	not liquid	not liquid	2014 - 2018	291,591
Venture capital funds (Level 3)	4,493,654	not liquid	not liquid	2014 - 2015	262,980
Subtotal alternative investments	<u>106,152,848</u>				<u>18,670,800</u>
Total investments	<u>\$ 120,473,790</u>				<u>\$ 18,670,800</u>

### Note 6 - Donor-restricted and Board-designated Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees as quasi-endowments. The Foundation's quasi-endowments have been created with gifts that were temporarily restricted by the donor for the benefit of a particular college within the university. Quasi-endowments have been included in the following schedules because they have been invested to provide income for a long, but unspecified period in accordance with board-imposed restrictions. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions or board-imposed restrictions.

**Interpretation of Relevant Law** - The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the original gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets

(a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to distribute or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the gifting organization or individual and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

- |  |  |  |
|--|--|--|
| <p>(5) The expected total return from income and the appreciation of investments</p> |  | <p>(6) Other resources of the Foundation<br/>(7) The investment policies of the Foundation</p> |
|--|--|--|

### Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (12,377)	\$ 147,666,731	\$ 181,034,433	\$ 328,688,787
Board-designated (quasi) endowment created with donor-restricted funds	-	93,571,157	-	93,571,157
Total funds	<u>\$ (12,377)</u>	<u>\$ 241,237,888</u>	<u>\$ 181,034,433</u>	<u>\$ 422,259,944</u>

### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of the year	\$ (569,243)	\$ 265,316,842	\$ 169,394,525	\$ 434,142,124
Net realized and unrealized gains and losses and investment income	556,866	(4,937,427)	(1,255,507)	(5,636,068)
Contributions	-	-	12,895,415	12,895,415
Spending policy transfer	-	(13,483,828)	-	(13,483,828)
Transfers to board-designated endowments	-	803,569	-	803,569
Administrative fee	-	(6,461,268)	-	(6,461,268)
Market value - End of the year	<u>\$ (12,377)</u>	<u>\$ 241,237,888</u>	<u>\$ 181,034,433</u>	<u>\$ 422,259,944</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Endowment Net Asset Composition by Type of Fund as of June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (569,243)	\$ 172,274,458	\$ 169,394,525	\$ 341,099,740
Board-designated (quasi) endowment created with donor-restricted funds	-	93,042,384	-	93,042,384
Total funds	<u>\$ (569,243)</u>	<u>\$ 265,316,842</u>	<u>\$ 169,394,525</u>	<u>\$ 434,142,124</u>

### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of the year	\$ (648,358)	\$ 221,402,733	\$ 157,859,625	\$ 378,614,000
Net realized and unrealized gains and losses and investment income	79,115	61,455,807	720,079	62,255,001
Contributions	-	-	10,814,821	10,814,821
Spending policy transfer	-	(12,400,670)	-	(12,400,670)
Transfers to board-designated endowments	-	655,412	-	655,412
Administrative fee	-	(5,796,440)	-	(5,796,440)
Market value - End of the year	<u>\$ (569,243)</u>	<u>\$ 265,316,842</u>	<u>\$ 169,394,525</u>	<u>\$ 434,142,124</u>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the contributed value that the donor or UPMIFA requires the Foundation to retain as the corpus. These funds are known as "underwater accounts." In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$12,377 and \$569,243 as of June 30, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations and allowable distributions made over time.

**Return Objectives and Risk Parameters** - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the

long-term purchasing power of the endowment assets. Endowment assets include donor-restricted funds that are held in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to outperform, over rolling 12-quarter periods, a composite benchmark of appropriately weighted indices, while maintaining acceptable risk levels. The Foundation anticipates the endowment funds will provide an average rate of return of approximately 7.6 percent annually, gross of investment management fees of approximately 0.7 percent. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy** - For the fiscal year ended June 30, 2015, the Foundation's spending policy stipulated that 6 percent of a three-year moving average of the market value of the endowment was available to spend, with 2 percent of the amount being set aside to support the Foundation's administrative expenses. The spending rate applied to all endowment accounts except underwater accounts, where spending was limited to 1 percent of a three-year moving average of the market value. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment to grow at an average of 1.0 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment returns and new gifts.

### Note 7 - Property and Equipment

As of June 30, 2015 and 2014, property and equipment are as follows:

	2015	2014
Land	\$ 2,488,895	\$ 2,705,054
Land improvements	880,910	800,628
Building and building improvements	40,804,333	40,321,700
Furnishings, fixtures, and equipment	6,376,639	5,968,122
Construction in progress	80,943	5,090
Subtotal	50,631,720	49,800,594
Less accumulated depreciation and amortization	(20,909,909)	(20,025,463)
Property and equipment - Net	\$ 29,721,811	\$ 29,775,131

Total depreciation expense of \$1,838,981 and \$1,653,590 was recorded in fiscal years 2015 and 2014, respectively.

### Note 8 - Support from Related Organizations

During 2015 and 2014, the University paid certain payroll costs amounting to \$4,116,887 and \$4,698,590, and additional costs of \$0 and \$468,272, respectively, 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 statements 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 significant to the results of activities of the Foundation.

The Foundation has a noncontrolling economic interest in Ohio South East Enterprise Development Fund, Inc. (SEED), a tax-exempt organization under Code Section 501(c)(4). SEED was created in July 1994 for the purpose of supporting the scientific and technological research, educational activities, and economic development of Ohio University. Currently, the Foundation is the named beneficiary of SEED's assets in the event that the entity is dissolved. Distributions from SEED are reflected in the consolidated statements of activities as gifts and contributions in the year they are received. However, SEED did not make any distributions to the Foundation during 2015 or 2014.

### Note 9 - Split-interest Agreements

**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. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. The Foundation uses the Internal Revenue Service (IRS) discount rate, or Applicable Federal Rate, to determine net present value of the liability. This rate is published monthly and represents the annual rate of return that the IRS assumes the gift assets will earn during the gift term.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

The discount rate for each charitable gift annuity is established at the beginning of the agreement. The discount rate applied to gift annuities held at June 30, 2015 and 2014 ranged from 1.2 to 9.4 percent.

**Charitable Remainder Trusts** - Under charitable remainder trust agreements, the Foundation serves as the remainderman and 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 trust 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 charitable trust asset, 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 trust 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 Foundation uses the IRS discount rate, or Applicable Federal Rate, to determine net present value of the liability. This rate is published monthly and represents the annual rate of return that the IRS assumes the gift assets will earn during the gift term. The discount rate for each charitable remainder trust is established at the beginning of the agreement. The discount rate applied to charitable remainder trusts held at June 30, 2015 and 2014 ranged from 2.4 to 8.2 percent.

Certain charitable remainder trust transactions are not reported on the consolidated

statements of financial position or the consolidated statements of activities as, in these cases, the remainderman can be changed by the donor prior to his/her death.

Adjustments to the charitable trust asset 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 are 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.

**Lead Trusts** - Charitable lead trusts provide an income stream to the Foundation for a set period of time established by the donor. The income stream is recorded at the net present value of the payments. Once the set period of time ends, the Foundation will no longer receive the income stream and the remaining principal is transferred back to the donor. If the Foundation serves as trustee, an asset and a liability will be recorded for the trust. The asset is booked at the fair market value. The liability is recorded at fair market value less the net present value of the income stream. If the Foundation does not serve as trustee, only the asset, at the net present value of the income stream, will be recorded for the trust. The Foundation uses the IRS discount rate, or Applicable Federal Rate, to determine net present value of the income stream. This rate is published monthly and represents the annual rate of return that the IRS assumes the gift assets will earn during the gift term. The discount rate for each charitable lead trust is established at the beginning of the agreement. The discount rate applied to the lead trusts held at June 30, 2015 and 2014 ranged from 1.07 to 5.16 percent.

**Perpetual and Other Trusts** - Perpetual trusts are those trusts that provide a perpetual income stream to the Foundation but are held by a third party. An asset and revenue are recorded for the fair market value of the instrument. Each year, the net change in fair

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

market value to the asset is recorded as an increase or decrease in revenue.

**Pooled Income Fund** - A pooled income fund allows a donor to place funds into an investment pool from which an income stream is provided. The income stream is paid to the donor and/or the donor-designated beneficiaries, and the Foundation will receive the net assets of the fund upon their death.

**Revocable Trusts** - Under revocable trust agreements, the Foundation serves as the remainderman and will receive the net assets of the trust upon death of the donor's beneficiary. All assets of the trust 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 the trust 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 statements of financial position or the consolidated statements of activities if the trust is held by a third-party trustee.

### Note 10 - Inn-Ohio of Athens, Inc.

The 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 University employees, alumni, and guests. As a significant portion of the Inn's revenue 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, changes in real estate taxes and other operating expenses, and the recurring need for renovation, refurbishment, and improvements.

**Operations** - The Inn's operations for the years ended June 30, 2015 and 2014 are summarized below:

	2015	2014
Revenue	\$ 5,275,949	\$ 5,479,088
Operating and general expenses	4,048,312	4,040,226
Depreciation and amortization	672,005	540,184
Interest expense - Net	7,469	19,266
Provision for income taxes	<u>156,506</u>	<u>308,849</u>
Total expenses	<u>4,884,292</u>	<u>4,908,525</u>
Net income	391,657	570,563
Realized gains on investments	43,869	-
Other comprehensive income (loss):	<u>(48,029)</u>	<u>12,342</u>
Change in net assets	<u>\$ 387,497</u>	<u>\$ 582,905</u>

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 60 days prior to the end of the fiscal year. The Manager's compensation is a base fee plus 15 percent of the hotel's net available operating profit as defined in the Management Agreement.

In fiscal years 2015 and 2014, base management fees incurred by the Inn with respect to the Manager were \$100,000 per year and incentive fees were \$170,964 and \$193,174, respectively.

**Property and Equipment** - Property and equipment of the Inn as of June 30, 2015 and June 30, 2014 consists of the following:

	2015	2014
Land	\$ 197,300	\$ 197,300
Land improvements	880,910	800,628
Buildings	7,237,852	6,879,593
Furnishings, fixtures, and equipment	4,358,956	4,027,661
Construction in progress	<u>80,943</u>	<u>5,090</u>
Total property and equipment	12,755,961	11,910,272
Less accumulated depreciation and amortization	<u>(7,369,634)</u>	<u>(7,653,816)</u>
Net property and equipment	<u>\$ 5,386,327</u>	<u>\$ 4,256,456</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

**Debt Obligations** - Long-term debt of the Inn as of June 30, 2015 and June 30, 2014 consists of the following:

	2015	2014
Term loan - Principal due through June 2021, interest at 3.31 percent through June 2016 and adjusted thereafter	\$ 2,051,200	\$ 2,325,000
Less current portion of long-term debt	<u>(291,300)</u>	<u>(273,800)</u>
Total	<u>\$ 1,759,900</u>	<u>\$ 2,051,200</u>

In June 2006, the Inn obtained a \$4,000,000 term loan, the proceeds of which were used to pay a dividend of \$3,000,000 in June 2006 and \$1,000,000 of which was placed in the bond fund to retire the 1996 Serial and Term Project Bonds in November 2006. The term loan is guaranteed by the Foundation.

A significant portion of the property and equipment are pledged as collateral for the term loan. The interest rate on the term loan was fixed at 6.20 percent through June 2011 and was adjusted to 3.31 percent as of July 1, 2011. The interest rate will be adjusted to the index rate as defined in the agreement plus 1.40 percent in June 2016.

Maturities of long-term debt at June 30, 2015 are set forth in the following schedule:

Years Ending June 30	Amount
2016	\$ 291,300
2017	309,900
2018	329,600
2019	350,500
2020	373,000
Thereafter	<u>396,900</u>
Total	<u>\$ 2,051,200</u>

The fair value of the debt obligations approximates the carrying value at June 30, 2015 and 2014.

### Note 11 - Housing for Ohio, Inc.

In November 1999, the Foundation established 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 the University and leased to Housing. The facility is managed and operated by a private entity.

**Operations** - Housing's operations for the years ended June 30, 2015 and 2014 are summarized below:

	2015	2014
Revenue	\$3,362,031	\$3,297,038
Operating and general expenses	1,435,563	1,306,370
Depreciation and amortization	861,596	824,629
Interest expense and bond fees	161,820	283,294
Tax and insurance	<u>174,966</u>	<u>297,944</u>
Total expenses	<u>2,633,945</u>	<u>2,712,237</u>
Change in net assets	<u>\$ 728,086</u>	<u>\$ 584,801</u>

**Property and Equipment** - Property and equipment of Housing as of June 30, 2015 and June 30, 2014 consists of the following:

	2015	2014
Student housing facility and improvements	\$ 27,483,760	\$ 27,329,935
Furnishings and equipment	<u>1,623,819</u>	<u>1,561,688</u>
Total property and equipment	29,107,579	28,891,623
Less accumulated depreciation	<u>11,147,822</u>	<u>10,335,170</u>
Net property and equipment	<u>\$ 17,959,757</u>	<u>\$ 18,556,453</u>

**Debt** - In September 2000, Housing offered \$31,985,000 of variable-rate, tax-exempt bonds (the "2000 Bonds"). The proceeds of the 2000 Bonds financed 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 its knowledge of prevailing market conditions, except that in no event will the interest rate exceed 12 percent.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

The average interest rates for the years ended June 30, 2015 and 2014 were 0.04 percent and 0.06 percent, respectively and the actual interest rates at June 30, 2015 and 2014 were 0.10 percent and 0.06 percent, respectively.

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

Principal payments for the bonded debt for the years subsequent to June 30, 2015 are summarized as follows:

Years Ending June 30	Principal
2016	\$ 910,000
2017	960,000
2018	1,010,000
2019	1,065,000
2020	1,125,000
Thereafter	<u>19,215,000</u>
Total	<u>\$ 24,285,000</u>

Debt issuance costs are included in property on the consolidated statements of financial position and are amortized over the term of the 2000 Bonds. Amortization was \$26,158 during each of the years ended June 30, 2015 and 2014.

## Supplementary Information

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# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Financial Position June 30, 2015

	The Foundation	The Inn	Housing	Supporting Organization	Russ LLCs	Eliminations	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 12,567,382	\$ 969,129	\$ 1,668,095	\$ -	\$ 1,628,817	\$ -	\$ 16,833,423
Accounts receivable - Net	151,290	131,831	28,968	-	241,340	-	553,429
Related party receivable - Net	57,407	-	-	-	-	(57,407)	-
Pledges receivable - Net	19,412,286	-	-	-	-	-	19,412,286
Bequests receivable	2,706,305	-	-	-	-	-	2,706,305
Interest and dividends receivable	79,546	-	-	-	-	-	79,546
Prepaid expenses	117,630	16,148	643,308	-	11,728	-	788,814
Investments	446,628,783	1,063,765	-	5,900,782	-	(1,063,765)	452,529,565
Investment in Inn-Ohio of Athens, Inc.	4,644,351	-	-	-	-	(4,644,351)	-
Cash surrender value - Life insurance policies	1,143,126	-	-	-	-	-	1,143,126
Charitable gift annuities	2,408,258	-	-	-	-	-	2,408,258
Charitable trusts	18,167,908	-	-	-	-	-	18,167,908
Deposits with trustees - Restricted cash	-	-	4,156,544	-	-	-	4,156,544
Property and equipment - Net	1,522,404	5,386,327	17,959,757	-	4,853,323	-	29,721,811
Other assets	-	249,072	471,470	-	-	-	720,542
<b>Total assets</b>	<b>\$ 509,606,676</b>	<b>\$ 7,816,272</b>	<b>\$ 24,928,142</b>	<b>\$ 5,900,782</b>	<b>\$ 6,735,208</b>	<b>\$ (5,765,523)</b>	<b>\$ 549,221,557</b>
<b>Liabilities and Net Assets (Deficit)</b>							
<b>Liabilities:</b>							
Accounts payable - Ohio University	\$ 1,419,176	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,419,176
Accounts payable - Trade	408,786	698,721	166,071	-	301,655	-	1,575,233
Accounts payable - Related party	-	-	-	-	57,407	(57,407)	-
Deposits held in custody for others	1,352,652	-	51,308	-	55,421	(1,063,765)	395,616
Annuities payable	1,853,312	-	-	-	-	-	1,853,312
Charitable trusts obligations	4,122,145	-	-	-	-	-	4,122,145
Bonds payable	-	-	24,285,000	-	-	-	24,285,000
Notes payable	-	2,051,200	-	-	-	-	2,051,200
Other liabilities	-	422,000	110,327	-	-	-	532,327
<b>Total liabilities</b>	<b>9,156,071</b>	<b>3,171,921</b>	<b>24,612,706</b>	<b>-</b>	<b>414,483</b>	<b>(1,121,172)</b>	<b>36,234,009</b>
<b>Net assets (deficit):</b>							
Unrestricted	3,005,997	-	315,436	-	-	-	3,321,433
Temporarily restricted	305,050,027	-	-	5,900,782	6,320,725	-	317,271,534
Permanently restricted	192,394,581	-	-	-	-	-	192,394,581
<b>Total net assets (deficit)</b>	<b>500,450,605</b>	<b>-</b>	<b>315,436</b>	<b>5,900,782</b>	<b>6,320,725</b>	<b>-</b>	<b>512,987,548</b>
<b>Stockholders' equity:</b>							
Common stock	-	3,429,192	-	-	-	(3,429,192)	-
Additional paid-in capital	-	4,139,955	-	-	-	(4,139,955)	-
Retained earnings	-	(2,924,796)	-	-	-	2,924,796	-
<b>Total stockholders' equity</b>	<b>-</b>	<b>4,644,351</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,644,351)</b>	<b>-</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 509,606,676</b>	<b>\$ 7,816,272</b>	<b>\$ 24,928,142</b>	<b>\$ 5,900,782</b>	<b>\$ 6,735,208</b>	<b>\$ (5,765,523)</b>	<b>\$ 549,221,557</b>

# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Activities Year Ended June 30, 2015

	Unrestricted	The Inn	Housing	Total Unrestricted	Temporarily Restricted	Supporting Organization	Russ LLCs	Total Temporarily Restricted	Total Permanently Restricted	Eliminations	Total
<b>Revenue and Other Support</b>											
Gifts and contributions	\$ 331,783	\$ -	\$ -	\$ 331,783	\$ 17,185,679	\$ -	\$ -	\$ 17,185,679	\$ 13,680,523	\$ -	\$ 31,197,985
University support	4,116,877	-	-	4,116,877	-	-	-	-	-	-	4,116,877
Income from investments:											
Interest and dividends	348,624	-	-	348,624	6,954,520	-	-	6,954,520	-	-	7,303,144
Sold during the year (realized gain)	2,025,390	-	-	2,025,390	38,943,461	-	-	38,943,461	506,443	-	41,475,294
Held at year end (unrealized loss)	(2,065,898)	-	-	(2,065,898)	(51,450,707)	-	-	(51,450,707)	(685,896)	-	(54,202,501)
Revenue from sales, services, and events	456,351	-	-	456,351	98,694	-	-	98,694	870	-	555,915
Change in value of split-interest agreements	38,969	-	-	38,969	(422,668)	-	-	(422,668)	(207,549)	-	(591,248)
Administrative fee income	6,461,268	-	-	6,461,268	(6,461,268)	-	-	(6,461,268)	-	-	-
Other	63,684	-	-	63,684	827,332	-	-	827,332	(229,398)	-	661,618
Related entity revenue	387,497	5,271,789	3,362,031	9,021,317	769,901	96,209	1,358,586	2,224,696	-	(1,157,398)	10,088,615
<b>Total revenue and other support</b>	<b>12,164,545</b>	<b>5,271,789</b>	<b>3,362,031</b>	<b>20,798,365</b>	<b>6,444,944</b>	<b>96,209</b>	<b>1,358,586</b>	<b>7,899,739</b>	<b>13,064,993</b>	<b>(1,157,398)</b>	<b>40,605,699</b>
<b>Net assets released from restrictions - Satisfaction of program restrictions:</b>											
Academic support	\$ 1,582,956	-	-	1,582,956	(1,582,956)	-	-	(1,582,956)	-	-	-
Alumni relations	55,834	-	-	55,834	(55,834)	-	-	(55,834)	-	-	-
Fundraising and development	153,463	-	-	153,463	(153,463)	-	-	(153,463)	-	-	-
Institutional support	1,217,895	-	-	1,217,895	(1,217,895)	-	-	(1,217,895)	-	-	-
Instruction and departmental research	12,334,284	-	-	12,334,284	(12,334,284)	-	-	(12,334,284)	-	-	-
Intercollegiate athletics	1,067,855	-	-	1,067,855	(1,067,855)	-	-	(1,067,855)	-	-	-
Public service	464,248	-	-	464,248	(464,248)	-	-	(464,248)	-	-	-
Research	621,308	-	-	621,308	(621,308)	-	-	(621,308)	-	-	-
Student aid	5,240,972	-	-	5,240,972	(5,240,972)	-	-	(5,240,972)	-	-	-
Student services	458,854	-	-	458,854	(458,854)	-	-	(458,854)	-	-	-
Related entity operations	1,403,759	-	-	1,403,759	-	(335,632)	(1,838,028)	(2,173,660)	-	769,901	-
<b>Total net assets released from restrictions</b>	<b>24,601,428</b>	<b>-</b>	<b>-</b>	<b>24,601,428</b>	<b>(23,197,669)</b>	<b>(335,632)</b>	<b>(1,838,028)</b>	<b>(25,371,329)</b>	<b>-</b>	<b>769,901</b>	<b>-</b>
<b>Total revenue, other support, and net assets released from restrictions</b>	<b>36,765,973</b>	<b>5,271,789</b>	<b>3,362,031</b>	<b>45,399,793</b>	<b>(16,752,725)</b>	<b>(239,423)</b>	<b>(479,442)</b>	<b>(17,471,590)</b>	<b>13,064,993</b>	<b>(387,497)</b>	<b>40,605,699</b>
<b>Expenses</b>											
Program services:											
Academic support	1,582,956	-	-	1,582,956	-	-	-	-	-	-	1,582,956
Alumni relations	2,447,845	-	-	2,447,845	-	-	-	-	-	-	2,447,845
Institutional support	1,338,092	-	-	1,338,092	-	-	-	-	-	-	1,338,092
Instruction and departmental research	12,340,204	-	-	12,340,204	-	-	-	-	-	-	12,340,204
Intercollegiate athletics	1,067,855	-	-	1,067,855	-	-	-	-	-	-	1,067,855
Public service	464,248	-	-	464,248	-	-	-	-	-	-	464,248
Research	621,428	-	-	621,428	-	-	-	-	-	-	621,428
Student aid	5,240,972	-	-	5,240,972	-	-	-	-	-	-	5,240,972
Student services	458,854	-	-	458,854	-	-	-	-	-	-	458,854
Support services:											
Fundraising and development	9,375,913	-	-	9,375,913	-	-	-	-	-	-	9,375,913
Fund administration	763,014	-	-	763,014	-	-	-	-	-	-	763,014
Related entity operations	1,403,759	4,884,292	2,633,945	8,921,996	-	-	-	-	-	-	8,921,996
<b>Total expenses</b>	<b>37,105,140</b>	<b>4,884,292</b>	<b>2,633,945</b>	<b>44,623,377</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,623,377</b>
<b>Changes in Net Assets</b>	<b>(339,167)</b>	<b>387,497</b>	<b>728,086</b>	<b>776,416</b>	<b>(16,752,725)</b>	<b>(239,423)</b>	<b>(479,442)</b>	<b>(17,471,590)</b>	<b>13,064,993</b>	<b>(387,497)</b>	<b>(4,017,678)</b>
<b>Net Assets (Deficit) - Beginning of year</b>	<b>3,345,164</b>	<b>4,256,854</b>	<b>(412,650)</b>	<b>7,189,368</b>	<b>321,802,752</b>	<b>6,140,205</b>	<b>6,800,167</b>	<b>334,743,124</b>	<b>179,329,588</b>	<b>(4,256,854)</b>	<b>517,005,226</b>
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 3,005,997</b>	<b>\$ 4,644,351</b>	<b>\$ 315,436</b>	<b>\$ 7,965,784</b>	<b>\$ 305,050,027</b>	<b>\$ 5,900,782</b>	<b>\$ 6,320,725</b>	<b>\$ 317,271,534</b>	<b>\$ 192,394,581</b>	<b>\$ (4,644,351)</b>	<b>\$ 512,987,548</b>

# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Cash Flows Year Ended June 30, 2015

	The Foundation	The Inn	Housing	Supporting Organization	Russ LLCs	Total
<b>Cash Flows From Operating Activities</b>						
Changes in net assets	\$ (4,414,396)	\$ 387,497	\$ 728,086	\$ (239,423)	\$ (479,442)	\$ (4,017,678)
Adjustments to reconcile changes in net assets to net cash from operating activities:						
Realized investment gains - Net	(41,475,294)	-	-	-	-	(41,475,294)
Noncash items:						
Depreciation and amortization	12,615	672,005	861,596	-	343,807	1,890,023
Loss on disposition of property	16,639	57,341	-	-	436,731	510,711
Unrealized investment loss - Net	54,202,501	-	-	-	-	54,202,501
Decrease in cash surrender value of life insurance policies	80,223	-	-	-	-	80,223
Decrease in investments subject to annuity agreements	189,312	-	-	-	-	189,312
Decrease in charitable remainder trust assets	482,907	-	-	-	-	482,907
Increase in annuity obligations	(43,964)	-	-	-	-	(43,964)
Decrease in trust obligations	163,000	-	-	-	-	163,000
Contributions of securities	(1,207,039)	-	-	-	-	(1,207,039)
Contributions restricted for endowment investment	(13,680,523)	-	-	-	-	(13,680,523)
Changes in current assets and liabilities:						
Decrease (increase) in accounts receivable	(90,982)	(117,938)	(22,129)	-	12,325	(218,724)
Increase in pledges receivable	(5,682,031)	-	-	-	-	(5,682,031)
Increase in bequests receivable	(1,538,240)	-	-	-	-	(1,538,240)
Increase in interest and dividends receivable	(35,610)	-	-	-	-	(35,610)
(Increase) decrease in prepaid expenses	(37,982)	1,391	(3,428)	-	1,093	(38,926)
Increase in other assets	-	(168,242)	(4,282)	-	-	(172,524)
Increase (decrease) in accounts payable	446,823	11,367	(2,930)	-	36,712	491,972
Increase in other liabilities	-	102,600	2,072	-	-	104,672
Increase (decrease) in deposits held in custody for others	20,390	-	7,910	-	(4,897)	23,403
Net cash (used in) provided by operating activities	(12,591,651)	946,021	1,566,895	(239,423)	346,329	(9,971,829)
<b>Cash Flows From Investing Activities</b>						
Purchases of property and equipment	(430,456)	(1,857,119)	(215,956)	-	(27,471)	(2,531,002)
Proceeds from sales of property and equipment	49,361	-	-	-	185,269	234,630
Purchases of investments	(290,397,787)	(163,205)	-	(153,512)	-	(290,714,504)
Proceeds from sales of investments	284,333,409	1,252,178	-	392,935	-	285,978,522
Contributions to new charitable gift annuities	(116,686)	-	-	-	-	(116,686)
Payments on charitable gift annuities	107,689	-	-	-	-	107,689
Contributions to new charitable remainder trusts	(516,498)	-	-	-	-	(516,498)
Payments on charitable remainder trusts	212,492	-	-	-	-	212,492
Net cash provided by (used in) investing activities	(6,758,476)	(768,146)	(215,956)	239,423	157,798	(7,345,357)
<b>Cash Flows from Financing Activities</b>						
Contributions restricted for endowment investment	13,680,523	-	-	-	-	13,680,523
Payments on notes and bonds payable	-	(273,800)	(865,000)	-	-	(1,138,800)
Increase in restricted cash	-	-	(273,510)	-	-	(273,510)
Net cash provided by (used in) financing activities	13,680,523	(273,800)	(1,138,510)	-	-	12,268,213
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(5,669,604)	(95,925)	212,429	-	504,127	(5,048,973)
<b>Cash and Cash Equivalents - Beginning of year</b>	18,236,986	1,065,054	1,455,666	-	1,124,690	21,882,396
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 12,567,382</b>	<b>\$ 969,129</b>	<b>\$ 1,668,095</b>	<b>\$ -</b>	<b>\$ 1,628,817</b>	<b>\$ 16,833,423</b>

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

Independent Auditor's Report

To Management and the Board of Trustees  
The Ohio University Foundation and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Ohio University Foundation, an Ohio not-for-profit corporation, and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2015, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Ohio University Foundation and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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

To Management and the Board of Trustees  
The Ohio University Foundation and Subsidiaries

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Plante & Morse, PLLC*

October 5, 2015

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**Russ Research Center LLC**  
**(an Ohio limited liability company and a**  
**wholly owned subsidiary of Fritz J. and**  
**Dolores H. Russ Holdings LLC)**

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**Financial Report**  
**June 30, 2015 and 2014**

# Russ Research Center LLC

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## Independent Auditor's Report

To the Board of Directors  
Russ Research Center LLC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Russ Research Center LLC (the "Company"), an Ohio limited liability company and a wholly owned subsidiary of Fritz J. and Dolores H. Russ Holdings LLC, which comprise the balance sheet as of June 30, 2015 and 2014 and the related statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Russ Research Center LLC

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Russ Research Center LLC as of June 30, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of Russ Research Center LLC'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* in considering Russ Research Center LLC's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

September 30, 2015

# Russ Research Center LLC

## Balance Sheet

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Assets</b>		
Cash	\$ 1,628,818	\$ 1,124,690
Accounts receivable - Net	241,339	182,273
Prepaid insurance	11,728	12,821
Property and equipment - Less accumulated depreciation (Note 3)	<u>4,853,323</u>	<u>5,169,659</u>
Total assets	<u><b>\$ 6,735,208</b></u>	<u><b>\$ 6,489,443</b></u>
<b>Liabilities and Member's Equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 356,662	\$ 243,360
Tenant security deposits	<u>55,421</u>	<u>60,318</u>
Total liabilities	412,083	303,678
<b>Member's Equity</b>	<u>6,323,125</u>	<u>6,185,765</u>
Total liabilities and member's equity	<u><b>\$ 6,735,208</b></u>	<u><b>\$ 6,489,443</b></u>

# Russ Research Center LLC

## Statement of Operations

	Year Ended	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Revenue</b>		
Rental income	\$ 1,795,122	\$ 1,652,179
Interest income	<u>194</u>	<u>238</u>
Total revenue	1,795,316	1,652,417
<b>Expenses</b>		
Real estate taxes	111,472	113,083
Security and inspections	24,334	43,069
Repairs and maintenance	318,559	206,167
Utilities	346,566	250,654
Professional fees	97,765	88,088
Administrative expenses	52,457	100,632
Depreciation expense	343,360	327,896
Bad debt expense	56,679	39,900
Management fees	<u>45,214</u>	<u>51,784</u>
Total expenses	<u>1,396,406</u>	<u>1,221,273</u>
<b>Net Income</b>	<b><u>\$ 398,910</u></b>	<b><u>\$ 431,144</u></b>

# Russ Research Center LLC

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## Statement of Member's Equity

<b>Balance - July 1, 2013</b>	\$ 6,035,985
Net income	431,144
Member distributions	<u>(281,364)</u>
<b>Balance - June 30, 2014</b>	6,185,765
Net income	398,910
Member distributions	<u>(261,550)</u>
<b>Balance - June 30, 2015</b>	<u><b>\$ 6,323,125</b></u>

# Russ Research Center LLC

## Statement of Cash Flows

	Year Ended	
	June 30, 2015	June 30, 2014
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 398,910	\$ 431,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	343,360	327,896
Bad debt expense	56,679	39,900
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(115,745)	(104,007)
Prepaid insurance	1,093	(12,821)
Accounts payable and accrued liabilities	113,302	(7,336)
Tenant security deposits	(4,897)	14,896
Net cash provided by operating activities	792,702	689,672
<b>Cash Flows from Investing Activities</b> - Purchase of property and equipment	(27,024)	(275,161)
<b>Cash Flows from Financing Activities</b> - Member distributions paid	(261,550)	(281,364)
<b>Net Increase in Cash</b>	504,128	133,147
<b>Cash</b> - Beginning of year	1,124,690	991,543
<b>Cash</b> - End of year	<u>\$ 1,628,818</u>	<u>\$ 1,124,690</u>

# Russ Research Center LLC

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 1 - Nature of Entity

Russ Research Center LLC (the "Company") was organized as a limited liability company on October 30, 2008 under the laws of the State of Ohio for the purpose of operating a research park, which consists of 10 office and research buildings located in Beavercreek, Ohio. The Company was created to accept the membership interest of an LLC that formerly held the land and buildings for the Russ Estate. The Company's sole member is Fritz J. and Dolores H. Russ Holdings LLC (Russ Holdings). Russ Holdings' sole member is the Ohio University Foundation (the "Foundation"). The Foundation's purpose is to support Ohio University, located in Athens, Ohio, its students, faculty, and staff and the educational programs designated for its students, potential students, and alumni.

### Note 2 - Summary of Significant Accounting Policies

**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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Classification** - The financial affairs of the Company generally do not involve a business cycle since the realization of assets and the liquidation of liabilities are usually dependent on the Company's circumstances. Accordingly, the classification of current assets and current liabilities is not considered appropriate and has been omitted from the balance sheet.

**Cash** - At times, cash may exceed federally insured amounts and as of June 30, 2015, the amount of uninsured cash was approximately \$1,158,000.

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was \$156,400 and \$75,700 as of June 30, 2015 and 2014, respectively.

**Property and Equipment** - Property additions are stated at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Impairment of Long-lived Assets** - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, management evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2015 and 2014.

**Recognition of Revenue** - Rental income is recognized when rent becomes due over the terms of the tenant leases (ranging from one to five years). Rental payments received in advance of the rental income recognition are included in accounts payable and accrued liabilities, a liability in the accompanying balance sheet. Late fees are recognized when tenants fail to submit rental payments under the terms of the leases. Late fees and other miscellaneous fees such as month-to-month leasing agreements, rental of storage facilities, and reservation fees will be included in other operating income related to rental activity in the accompanying statement of operations.

**Income Taxes** - The Company is treated as a pass-through entity for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Company. The member is taxed individually on its pro-rata ownership share of the Company's earnings. The Company's net income or loss is allocated to the sole member in accordance with the Company's operating agreement. With few exceptions, the Company is no longer subject to tax examinations by tax authorities for years before June 30, 2012.

**Upcoming Accounting Pronouncement** - During May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in the ASU clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Company will be required to adopt and implement this accounting update as of and for the year ending June 30, 2020.

# Russ Research Center LLC

## Notes to Financial Statements June 30, 2015 and 2014

### Note 2 - Summary of Significant Accounting Policies (Continued)

Management has not yet assessed the effect of this accounting standards update on the financial statements.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including September 30, 2015, which is the date that the financial statements were available to be issued.

### Note 3 - Property and Equipment

A summary of property and equipment at June 30 is as follows:

	2015	2014	Depreciable Lives - Years
Land	\$ 832,300	\$ 832,300	-
Buildings and improvements	5,455,653	5,443,721	20
Machinery and equipment	202,427	187,335	7
Tenant improvements	<u>191,437</u>	<u>191,437</u>	5
Total property	6,681,817	6,654,793	
Less accumulated depreciation	<u>1,828,494</u>	<u>1,485,134</u>	
Net property and equipment	<u>\$ 4,853,323</u>	<u>\$ 5,169,659</u>	

Depreciation expense totaled \$343,360 and \$327,896 for the years ended June 30, 2015 and 2014, respectively. Substantially all of the land and buildings are for rent.

# Russ Research Center LLC

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## Notes to Financial Statements June 30, 2015 and 2014

### Note 4 - Rental Income

Minimum future rental income on tenant leases to be received in each of the next five years and thereafter is as follows:

Years Ending <u>June 30</u>	<u>Rental Income</u>
2016	\$ 1,301,200
2017	951,400
2018	370,100
2019	26,300
2020	-
Thereafter	<u>-</u>
Total	<u>\$ 2,649,000</u>

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

Independent Auditor's Report

To Management and the Board of Directors  
Russ Research Center LLC

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Russ Research Center LLC (the "Company"), an Ohio limited liability company and a wholly owned subsidiary of Fritz J. and Dolores H. Russ Holdings LLC, which comprise the balance sheet as of June 30, 2015 and the related statements of operations, member's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Russ Research Center LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2015-001, that we consider to be a significant deficiency.

To Management and the Board of Directors  
Russ Research Center LLC

### **Compliance and Other Matters**

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

### **Russ Research Center LLC's Response to Finding**

Russ Research Center LLC's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Russ Research Center LLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Plante & Moran, PLLC*

September 30, 2015

# Russ Research Center LLC

## Section II - Schedule of Findings and Responses Year Ended June 30, 2015

Reference Number	Finding
2015-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Generally accepted accounting principles require that the Company's obligations for goods or services performed/received in the fiscal year ended June 30, 2015 should be recorded as accounts payable or accrued liabilities as of June 30, 2015.</p> <p><b>Condition</b> - The Company did not record in accounts payable, or accrue for, services performed in the fiscal year ended June 30, 2015 that were not paid until subsequent to June 30, 2015.</p> <p><b>Context</b> - Out of 19 invoices tested for proper cut-off, three were not properly recorded in accounts payable at year end. The amount of the unrecorded liability totaled \$5,179, which was not recorded by the Company as of June 30, 2015.</p> <p><b>Cause</b> - The Company did not perform a comprehensive analysis of its outstanding purchase orders or review its accruals as of year end to ensure that services performed in the fiscal year ended June 30, 2015 were properly recorded as liabilities.</p> <p><b>Effect</b> - As a result of not performing the analysis, expenses could be reported in the wrong period.</p> <p><b>Recommendation</b> - We suggest management perform a thorough review of any outstanding purchase orders at year end, as well as any invoices not yet received for services performed or goods received in the current fiscal year, to verify that all liabilities are properly recorded.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Company will work to enhance policies and practices to ensure that accounts payable cut-off procedures are thoroughly performed at year end.</p>

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# Dave Yost • Auditor of State

**OHIO UNIVERSITY FOUNDATION**

**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  
DECEMBER 29, 2015**