

*The Ohio State  
University Foundation*

*Financial Statements for the  
Year Ended June 30, 2002  
and Independent Auditors' Report*





**Auditor of State  
Betty Montgomery**

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Board of Trustees  
The Ohio State University Foundation

We have reviewed the Independent Auditor's Report of The Ohio State University Foundation, Franklin County, prepared by Deloitte & Touche LLP for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State University Foundation is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 22, 2003

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of net assets of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, as of June 30, 2002 and the related statements of revenues, expenses and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ohio State University Foundation as of June 30, 2002 and the changes in its financial position (including cash flows) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Foundation has restated beginning net assets to exclude certain endowment pledges receivable that had previously been recorded.

As described in Note 1 to the financial statements, in 2002, the Foundation adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus."

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

DELOITTE & TOUCHE LLP

August 30, 2002

# THE OHIO STATE UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2002

The following Management's Discussion and Analysis (MD&A) of The Ohio State University Foundation's (the Foundation) financial performance provides an introduction to the financial statements for the year ended June 30, 2002. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

## OVERVIEW

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

## STATEMENT OF NET ASSETS

	<b>2002</b>
<b>ASSETS:</b>	
Current assets	\$ 1,908,842
Other assets	<u>250,510,015</u>
Total assets	<u>\$252,418,857</u>
<b>LIABILITIES:</b>	
Current liabilities	\$ 699,226
Long-term liabilities	<u>41,972,025</u>
Total liabilities	42,671,251
<b>NET ASSETS:</b>	
Unrestricted	3,298,048
Restricted	13,198,094
Endowment	<u>193,251,464</u>
Total net assets	<u>209,747,606</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$252,418,857</u></u>

## ASSETS

Total Current Assets decreased from \$2.4 million at June 30, 2001 to \$1.9 million at June 30, 2002, primarily due to the current portion of pledges receivable decreasing by \$1 million. This was caused by normal scheduled payments being made by donors for their pledge commitments.

Total Noncurrent Assets decreased from \$261 million at June 30, 2001 to \$251 million at June 30, 2002 due to several offsetting factors. The principal factors were the various investment accounts and the Charitable Remainder Trusts account collectively decreasing \$10 million. Investments decreased because of overall financial market performance. Charitable Remainder Trusts also declined due to overall market conditions.

## LIABILITIES

Liabilities in 2002 are fairly consistent with 2001 balances. All of the liability accounts, both current and noncurrent, with the exception of Advance from The Ohio State University, are related to gift annuitants and trust beneficiaries. The accounts are adjusted each June 30 to reflect the present value of payments expected to be made to gift annuitants and trust beneficiaries. The Gift Annuity Reserve is the surplus from gift annuities, which is invested by the Foundation until the respective annuitants pass away. At that time, the remainder in the gift annuity account is distributed to the University or Foundation Endowment. Advance from The Ohio State University represent funds advanced to the Foundation, which will be repaid from Foundation unrestricted funds.

## STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	<b>2002</b>
Operating revenues	\$18,548,702
Operating expenses	<u>30,366,570</u>
Operating loss and decrease in net assets	<u><u>\$11,817,868</u></u>

## OPERATING REVENUES

Gifts decreased from \$71 million at June 30, 2001 to \$43 million at June 30, 2002. A primary reason for the decrease was that one unusually large gift of over \$30 million was given in 2001. Another key factor was that pledges were first recorded in 2001; thus increasing gifts by \$6 million in that year.

Interest and Dividends increased from \$8 million at June 30, 2001 to \$12 million at June 30, 2002. The increase is due to the University Endowment Fund distributing more income to the Foundation for its endowment accounts. This is because the Foundation has more endowment accounts at June 30, 2002 and consequently owns more shares of the University's endowment investment pool. Also the distribution per share increased from \$370.81 to \$400.95.

The Gains (Losses) on Securities and Real Estate line items represent the adjustment of those assets to market value at June 30, 2002. The change in carrying value of remainder trusts also represents adjustment of those assets, net of their related liabilities, to market at June 30, 2002.

Miscellaneous income is principally funds the University transfers to the Foundation for general support and specific funding items.

Distributions to The Ohio State University increased from \$21 million at June 30, 2001 to \$28 million at June 30, 2002. The increase was from additional endowment distribution, which is passed on to the University, and additional restricted gifts to the Foundation, which are also passed on to the University.

Distributions to gift annuitants represent contractual payments to annuitants. Gift annuity remainder distributions represent distributions to the University for the accounts of annuitants passing away during the year. Gift annuity reserve adjustment reflects the adjustment to market gift annuity assets, and the adjustment to present value of expected annuity payments. The adjustment also includes the difference between income earned and payments to annuitants.

## **NET ASSETS**

Net assets decreased \$12 million as a result of Operating Expenses exceeding Revenue.

## **STATEMENT OF CASH FLOWS**

Operating activities	\$ 33,711,560
Investing activities	<u>(33,550,224)</u>
Net increase in cash and cash equivalents	161,336
Cash, beginning of year	<u>163,817</u>
Cash, end of year	<u><u>\$ 325,153</u></u>

The major source of funds included in operating activities is cash received from contributors totaling \$43 million. The largest cash payments for operating activities were distributions to The Ohio State University of \$29 million.

Cash used in investing activities primarily represents purchases of marketable securities totaling \$39 million offset by proceeds from sales of marketable securities of \$5 million.



# THE OHIO STATE UNIVERSITY FOUNDATION

## STATEMENT OF NET ASSETS

JUNE 30, 2002

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 325,153
Investments in marketable securities - current portion	448,668
Pledges receivable - current portion	1,040,230
Accounts receivable, net	39,420
Accrued interest receivable	35,309
Other current assets	<u>20,062</u>

Total current assets 1,908,842

INVESTMENT IN THE OHIO STATE UNIVERSITY ENDOWMENT FUND 185,195,505

PLEDGES RECEIVABLE 3,691,121

CHARITABLE REMAINDER TRUSTS 41,607,742

INVESTMENTS IN MARKETABLE SECURITIES 14,472,890

LIFE INSURANCE POLICIES 3,028,319

INVESTMENT IN REAL ESTATE 1,500,000

RECEIVABLE FROM THE OHIO STATE UNIVERSITY 523,587

OTHER ASSETS 490,851

TOTAL ASSETS \$252,418,857

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES:

Gift annuity liabilities - current portion	\$ 184,511
Gift annuity reserve - current portion	287,771
Advance from The Ohio State University	<u>226,944</u>

Total current liabilities 699,226

GIFT ANNUITY LIABILITIES 9,126,062

CHARITABLE REMAINDER TRUST LIABILITY 27,469,297

GIFT ANNUITIES RESERVE 5,305,740

ADVANCE FROM THE OHIO STATE UNIVERSITY 70,926

Total liabilities 42,671,251

#### NET ASSETS:

Unrestricted	3,298,048
Restricted	13,198,094
Endowment	<u>193,251,464</u>

Total net assets 209,747,606

TOTAL LIABILITIES AND NET ASSETS \$252,418,857

See notes to financial statements.

# THE OHIO STATE UNIVERSITY FOUNDATION

## STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2002

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### OPERATING REVENUES:

Gifts	\$ 42,898,352
Interest and dividends	11,736,808
Realized/unrealized losses on marketable securities, net	(38,527,451)
Realized/unrealized losses on real estate	(1,457,091)
Gift annuity reserve adjustment	2,376,080
Change in carrying value of remainder trusts	323,906
Miscellaneous income	<u>1,198,098</u>
Total operating revenues	<u>18,548,702</u>

### OPERATING EXPENSES:

Distributions to The Ohio State University	28,153,834
Distributions to gift annuitants	1,015,640
Gift annuity remainder distributions	870,571
Salaries	102,848
Benefits	23,241
Legal fees	1,512
Audit fees	28,450
EDP training, hardware and software	21,243
Training and travel expense	1,478
Office supplies and expenses	1,990
Real estate taxes, fees and expenses	112,075
Transfers to The Ohio State University	25,129
Other	<u>8,559</u>
Total operating expenses	<u>30,366,570</u>

OPERATING LOSS AND DECREASE IN NET ASSETS (11,817,868)

NET ASSETS - Beginning of year (as restated) (Note 1) 221,565,474

NET ASSETS - End of year \$ 209,747,606

See notes to financial statements.

# THE OHIO STATE UNIVERSITY FOUNDATION

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2002

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### OPERATING ACTIVITIES:

Cash received from contributors	\$ 43,385,523
Interest and dividends received	11,264,471
Funding from The Ohio State University	1,113,306
Receipt of new gift annuity agreements	6,515,296
Receipt of new trust agreements	2,378,842
Investment income received on gift annuities	472,337
Distributions to The Ohio State University	(29,128,265)
Income distributions paid to gift annuitants	(1,015,640)
Distributions to gift annuity remainderman	(870,571)
Payments to vendors for supplies and services	(175,307)
Payments to or on behalf of employees	(102,848)
University employee benefit payments	(23,241)
Other receipts (payments)	<u>(102,343)</u>
Net cash provided by operating activities	<u>33,711,560</u>

### INVESTING ACTIVITIES:

Proceeds from sales of marketable securities	5,234,140
Purchases of marketable securities	<u>(38,784,364)</u>
Net cash used in investing activities	<u>(33,550,224)</u>

INCREASE IN CASH AND CASH EQUIVALENTS 161,336

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 163,817

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 325,153

### RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$(11,817,868)
Adjustments to reconcile net income to net cash provided by operating activities:	
Unrealized loss on investments	38,527,451
Unrealized loss on real estate	1,457,091
Unrealized loss on Charitable Remainder Trusts	1,504,156
Change in CSV of Life Insurance Policies	(59,663)
Total gifts received in real estate	(451,146)
Adjustment to gift annuity reserve	(2,376,080)
Other	21,643
Changes in operating assets and liabilities:	
Decrease in pledges receivable	938,317
Increase in accounts receivable	(39,420)
Increase in accrued interest receivable and other current assets	(3,601)
Decrease in other assets	35,485
Increase in Receivable from Ohio State University	(168,249)
Decrease in advance from Ohio State University	(806,182)
Increase in liability for gift annuities	3,098,287
Increase in gift annuity reserve	3,364,530
Increase in liability for charitable remainder trusts	<u>486,809</u>
Net cash provided by operating activities	<u>\$ 33,711,560</u>

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash received (paid) during the year for taxes	<u>\$ 15,518</u>
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See notes to consolidated financial statements.

# THE OHIO STATE UNIVERSITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

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### 1. ACCOUNTING POLICIES

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

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

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

**Cash Equivalents** - The Foundation considers all demand deposit accounts and money market funds with a maturity of three months or less at the date of purchase to be cash equivalents. All cash is principally on deposit with one bank.

**Fund Accounting** - To ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported in the following fund groups:

**Unrestricted Fund** - The Unrestricted Fund represents funds which can be used by the Foundation for any purpose authorized by the Board of Directors.

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

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

**Operating Revenue and Expenses** - Operating revenues and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations. The principal operating revenues are derived from gifts, interest and dividends, gains

and losses on marketable securities and real estate investments and the change in other assets held by the Foundation. Operating expenses include distributions to The Ohio State University and gift annuitants and related administrative expenses.

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

In accordance with GASB Statement No. 33, "Accounting and Reporting for Nonexchange Transactions," private donations are recognized when all eligibility requirements are met. The Foundation has recorded \$4,731,351 in pledges receivable as of June 30, 2002.

**In-Kind Income** - The facilities occupied by the Foundation are provided by the University. In addition, The Ohio State University Office of University Development and the Office of the Treasurer assist the Foundation in fund raising, gift processing and accounting. The value of the office space and services provided constitutes additional in-kind income to the Foundation that is not recorded.

**Investments** - Investments in The Ohio State University Endowment Fund are valued at share values reported by the University. The interest in unitrust, annuity trust and pooled income agreements are invested principally in Vanguard Mutual Funds and are carried at market value. Real estate is recorded at appraised value. Bonds and notes are recorded at values determined by market quotations. Mutual funds are recorded at share values reported by investment carriers. Realized gains or losses from sale or redemption of investments are based upon the cost of the specific investment sold or redeemed. Purchases and sales of investments are reflected on a trade-date basis.

Investment income is recorded in the fund in which the income was earned, except for income derived from endowments. Investment income on Endowment Fund assets is recorded in the fund to which the income was designated by the donor.

**Reimbursement Agreement and Resolution** - The Foundation and the University entered into an agreement in March 1989, to reimburse costs incurred by the University on behalf of the Foundation and to repay related advances from the University. In connection therewith, the Foundation's Board of Directors approved a resolution in April 1989, authorizing the Foundation to utilize undesignated income earned from unrestricted/restricted funds, as needed, to reimburse the University. On July 7, 2000 The Ohio State University's Board of Trustees approved a resolution creating a funding plan for University development. Part of this plan includes support to reduce the Foundation's outstanding liability to the University. In 2002 a reduction of \$358,000 was recognized.

**Life Insurance Policies** - The Foundation is the owner and beneficiary of certain life insurance policies. The policies classified in the Unrestricted Fund are single premium whole life insurance policies paid by the Foundation. These policies are recorded at their net present value, which was calculated using the risk free interest rate (approximately 4% at June 30, 2002). The policies classified in the Restricted Fund are whole life policies including both single premium and annual premium policies for which the donors are paying the premiums. These policies are recorded at their cash surrender value. The increase in the recorded value during the year is recorded in miscellaneous income.

***New Accounting Pronouncements*** - In June 1999 the GASB issued Statement No. 34, “Basic Financial Statements - Management’s Discussion and Analysis - for State and Local Governments.” In June 2001 the GASB No. issued Statement No. 37, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus,” which amended certain provisions of GASB No. 34. The Foundation has adopted this Statement for its 2002 financial statements. The adoption of GASB No. 34 required the Foundation to make several changes to the presentation of its basic financial statements, in addition to requiring the presentation of the Foundation’s Management’s Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. To conform to the requirements of GASB No. 34, several changes have been made to the Foundation’s financial statements:

- The Statement of Net Assets (formerly referred to as “Balance Sheet”) has been modified to report current and noncurrent asset and liability classifications;
- Fund equities have been reclassified as net assets; and
- The Statement of Cash Flows, previously omitted, is presented using the direct method.

The adoption of GASB No. 34 did not have an impact on the net assets of the Foundation’s funds.

***Restatement*** - Subsequent to the issuance of the Foundation’s 2001 financial statements, the Foundation’s management determined that certain endowment pledges receivable totalling \$31,038,155 had been incorrectly reported under GASB No. 33. As a result, beginning net assets in the accompanying financial statements have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Net assets	<u>\$252,603,629</u>	<u>\$221,565,474</u>

## 2. INVESTMENTS

The Foundation's most significant investment is in The Ohio State University Endowment Fund, which is disclosed separately on the statement of net assets. Investments in marketable securities at June 30, 2002 are comprised of:

Restricted Fund:	
Money Market Funds	\$ 767,924
U.S. Treasury Bond, 10.75%, due 2/15/2003	105,531
U.S. Treasury Note, 7.25%, due 5/15/2004	108,156
U.S. Treasury Note, 3.625%, due 1/15/2008	232,893
U.S. Treasury Bond, 8.375%, due 8/15/2008	106,656
U.S. Treasury Note, 3.875%, due 1/15/2009	581,422
U.S. Treasury Bond, 4.25%, due 1/15/2010	289,799
U.S. Treasury Note, 3.50%, due 1/15/2011	267,157
Financing Corp., 10.70%, due 10/6/2017	279,538
Vanguard S&P 500 Fund	3,263,348
Vanguard Bond Market Portfolio	6,057,658
Vanguard Index Trust - Extended Market Portfolio	<u>2,845,616</u>
Total Restricted Fund	14,905,698
Endowment Fund - Worthington Station Ltd.	<u>15,860</u>
Total investments in marketable securities	<u><u>\$14,921,558</u></u>

## 3. GIFT ANNUITIES

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

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

As of June 30, 2002 the assets related to these investments had a fair market value of approximately \$14,922,000, a present value of annuities payable of approximately \$9,311,000 and reserves of approximately \$5,594,000.

## 4. UNITRUST, ANNUITY TRUST AND POOLED INCOME AGREEMENTS

An officer of the Foundation, as trustee, has entered into unitrust, annuity trust and pooled income agreements which provide, among other matters, that the trustee shall pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until the death of the beneficiaries. Upon death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of gift, and by recording the present value of the annuity payable, based on the agreement, as a liability.

**5. RELATED PARTY TRANSACTIONS**

The University made net advances to the Foundation of approximately \$298,000 as of June 30, 2002. The Foundation distributed approximately \$28,154,000 in fiscal year 2002 to the University as directed by donors. The Foundation had receivables from the University of approximately \$524,000 as of June 30, 2002.

The investment in The Ohio State University Endowment Fund reflects the Foundation's participation in the central investment program of the University Endowment Fund. The University employs the share method of accounting for pooled investments and for proportionate distribution of income to each fund which participates in the pool.

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## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

August 30, 2002

The Ohio State University Foundation  
Columbus, Ohio

We have performed the procedures described below, which were agreed to by the management of The Ohio State University Foundation (the "Foundation"), with respect to accounts and related records of the trusts, pooled income agreements and gift annuities administered and maintained by the Foundation for the period from July 1, 2001 to June 30, 2002. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the management of the Foundation. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

### **TRUSTS, POOLED INCOME AGREEMENTS AND GIFT ANNUITIES**

#### **TEST OF NEW DONOR AGREEMENTS**

- Read each new donor agreement with the Foundation during the period from July 1, 2001 to June 30, 2002 noting the donor's name, type and purpose for the gift, date of the gift, principal amount, beneficiaries and nature of any financially significant donor restrictions. This information was agreed to the Foundation's charitable remainder trust accounts schedule as of June 30, 2002.

Comment: We noted no exceptions.

- Proved the mathematical accuracy of five randomly selected trusts and pooled income ledgers.

Comment: We noted no exceptions.

- Compared income earned on five randomly selected investments as recorded on the selected trustee statements with income credited to the selected trust processor system.

Comment: We noted no exceptions.

- Confirmed the investment and valuation of all securities held in safekeeping at June 30, 2002, by direct correspondence with the respective safekeeping institutions.

Comment: We noted no exceptions.

- Compared balances of all securities held in safekeeping to the Foundation's reconciliation to the summary quarterly report of investments owned at June 30, 2002.

Comment: We noted no exceptions.

- Recalculated selected payments made to beneficiaries based on percentages set forth in the five randomly selected trust agreements described above.

Comment: We noted no exceptions.

- Confirmed directly with ten randomly selected beneficiaries, payments, as recorded in the trust, pooled income and gift annuity ledgers.

Comment: We noted no exceptions.

- Selected five trusts and five gift annuity agreements from the last six months of the prior calendar year (i.e. 2001), noting that the following returns (if required) were timely prepared:

Form K-1

Form 1041A and supporting schedules

Form 5227

Form 1099-R

Comment: We noted no exceptions.

- Recalculated the allocation of income earned on selected investments from the trust processor system to five randomly selected deferred gifts.

Comment: We noted no exceptions.

### TEST OF EXISTING AGREEMENTS

Selected five existing deferred gift agreements as of June 30, 2002 and 2001 and verified the following:

1. Read the agreements and compared the administrative provisions of the agreements for consistency.
2. Agreed periodic payouts during the period from July 1, 2001 to June 30, 2002 were consistent with the agreement.
3. Confirmed periodic payments during the period from July 1, 2001 to June 30, 2002 were received by the beneficiary.
4. Inquired of multiple levels of the Foundation's personnel that tax returns (5227, 1041A and supporting schedules, K-1 and 1099-R) were accurately prepared and filed on time for calendar 2000.
5. Noted periodic reports to beneficiaries regarding trust assets during the period from July 1, 2001 to June 30, 2002 were accurate with the trust statement.

Comment: We noted no exceptions.

### TEST OF MATURED AGREEMENTS

Noted distribution of remainder interests for matured agreements during the period from July 1, 2001 to June 30, 2002 of approximately \$4,329,000 to appropriate endowment account as directed by applicable endowment agreements.

Comment: We noted no exceptions

### **ENDOWMENT AGREEMENTS**

Read five existing authorized endowment agreements as of June 30, 2002 and a random sample of the new authorized endowment agreements during the period from July 1, 2001 to June 30, 2002 noting the Fund's name, type and purpose of the gift, principal amount, recipient party, disposition of income earned and nature of any donor restrictions.

- For the selected endowment agreements above, agreed distributions from the Foundation to postings in the University's Financial Accounting System.

Comment: We noted no exceptions.

- Traced twenty-five randomly selected distributions and expenditures during the period from July 1, 2001 to June 30, 2002 to the expenditures' classification recorded in the University's Financial Accounting System and compared expenditures to the donor's intentions and restrictions as reflected in their endowment agreements.

Comment: We noted no exceptions.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of The Ohio State University Foundation and is not intended to be and should not be used by anyone other than this specified party.

Very truly yours,

DELOITTE & TOUCHE LLP



**Auditor of State  
Betty Montgomery**

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**THE OHIO STATE UNIVERSITY FOUNDATION**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 11, 2003**