

# **The Ohio University Foundation and Subsidiaries**

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**Consolidated Financial Statements as of and  
for the Years Ended June 30, 2010 and 2009  
with Supplemental Schedules as of and for the  
Year Ended June 30, 2010 and Independent  
Auditor's Report**





# Dave Yost • Auditor of State

January 20, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

A handwritten signature in cursive script that reads "Dave Yost".

DAVE YOST  
Auditor of State

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Mary Taylor, CPA  
Auditor of State

Board of Trustees  
The Ohio University Foundation and Subsidiaries  
166 HDL Center  
Suite 204  
Athens, Ohio 45701

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, 2009 through June 30, 2010. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 7, 2011

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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  
Athens, Ohio

We have audited the accompanying consolidated statement of financial position of The Ohio University Foundation, an Ohio not-for-profit corporation, and Subsidiaries (the "Foundation") as of June 30, 2010 and 2009 and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 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 audits provide 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 University Foundation and Subsidiaries as of June 30, 2010 and 2009 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Foundation, taken as a whole. The consolidating information on pages 37-40 is presented for the purpose of additional analysis rather than to present the financial position, change in net assets, and cash flows of the individual entities, and is not a required part of the basic consolidated financial statements. These schedules are the responsibility of the management of the Foundation. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



To the Board of Trustees  
The Ohio University Foundation  
and Subsidiaries  
Athens, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of The Ohio University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 (included on pages 41-42 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 \$102,762,511 (31.6 percent of net assets) and \$89,523,760 (33.6 percent of net assets) at June 30, 2010 and 2009, 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.

*Plante & Moran, PLLC*

October 15, 2010

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Financial Position June 30, 2010 and 2009

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 20,307,677	\$ 10,544,532
Accounts receivable - Net	492,266	354,005
Pledges receivable - Net	12,294,944	19,595,695
Bequests receivable	949,252	551,853
Interest and dividends receivable	193,561	344,243
Prepaid expenses	828,363	935,374
Investments	270,840,698	225,630,152
Cash surrender value - Life insurance policies	1,856,346	1,834,656
Charitable trusts	16,715,185	2,580,840
Charitable gift annuities	2,131,740	2,017,306
Deposits with trustees - Restricted cash	3,335,751	3,474,439
Property and equipment - Net	36,011,632	37,301,348
Other assets	672,436	721,499
	<u>366,629,851</u>	<u>305,885,942</u>
Total assets	<b>\$ 366,629,851</b>	<b>\$ 305,885,942</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable:		
Ohio University	\$ 2,466,472	\$ 2,288,703
Trade and other	1,289,569	1,172,598
Deposits held in custody for others	306,060	278,836
Annuities payable	1,566,510	1,631,555
Charitable trusts obligations	4,251,212	956,677
Bonds payable	28,195,000	28,865,000
Notes payable	3,545,600	3,816,600
Other liabilities	204,083	271,425
	<u>41,824,506</u>	<u>39,281,394</u>
Total liabilities	41,824,506	39,281,394
<b>Net Assets (Deficit)</b>		
Unrestricted	2,933,270	(16,881,083)
Temporarily restricted	172,666,202	138,463,261
Permanently restricted	149,205,873	145,022,370
	<u>324,805,345</u>	<u>266,604,548</u>
Total net assets	324,805,345	266,604,548
Total liabilities and net assets	<b>\$ 366,629,851</b>	<b>\$ 305,885,942</b>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Gifts and contributions	\$ 583,134	\$ 13,369,113	\$ 679,922	\$ 14,632,169
University support	4,659,164	-	-	4,659,164
Income from investments:				
Interest and dividends	201,002	2,444,554	3,587	2,649,143
Sold during the year (realized gain (loss))	12,641,390	8,428,485	4,885,038	25,954,913
Held at year end (unrealized gain (loss))	7,240,257	22,184,126	140,656	29,565,039
Revenues from sales, services, and events	296,137	13,407	-	309,544
Change in value - Split-interest agreements	(2,846)	(133,585)	73,878	(62,553)
Administrative fee income	694,239	(665,986)	(28,253)	-
Other	117,060	166,427	82,782	366,269
Related entity revenues	7,264,395	1,566,878	-	8,831,273
Total revenues and other support	<u>33,693,932</u>	<u>47,373,419</u>	<u>5,837,610</u>	<u>86,904,961</u>
Net assets released from restrictions - Satisfaction of program restrictions:				
Academic support	1,029,150	(1,029,150)	-	-
Alumni relations	21,808	(21,808)	-	-
Fund-raising and development	19,442	(19,442)	-	-
Institutional support	1,133,649	(716,076)	(417,573)	-
Instruction and departmental research	6,958,326	(5,794,625)	(1,163,701)	-
Intercollegiate athletics	754,929	(737,098)	(17,831)	-
Operation and maintenance of plant	338,647	(338,647)	-	-
Public service	10,547	(10,547)	-	-
Research	70,397	(70,397)	-	-
Student aid	2,691,673	(2,636,671)	(55,002)	-
Student services	226,546	(226,546)	-	-
Related entity operations	-	-	-	-
Total net assets released from restrictions	<u>13,255,114</u>	<u>(11,601,007)</u>	<u>(1,654,107)</u>	<u>-</u>
Total revenues, other support, and net assets released from restrictions	<u>46,949,046</u>	<u>35,772,412</u>	<u>4,183,503</u>	<u>86,904,961</u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities (Continued)

### Year Ended June 30, 2010

	Unrestricted	Restricted	Restricted	Total
Expenses:				
Program services:				
Academic support	\$ 1,029,150	\$ -	\$ -	\$ 1,029,150
Alumni relations	885,904	-	-	885,904
Institutional support	1,150,844	-	-	1,150,844
Instruction and departmental research	6,181,073	-	-	6,181,073
Intercollegiate athletics	755,590	-	-	755,590
Operation and maintenance of plant	338,647	-	-	338,647
Public service	10,547	-	-	10,547
Research	344,032	-	-	344,032
Student aid	2,716,335	-	-	2,716,335
Student services	226,546	-	-	226,546
Support services:				
Fund-raising and development	6,037,475	-	-	6,037,475
Fund administration	644,857	-	-	644,857
Related entity operations	6,813,693	1,569,471	-	8,383,164
Total expenses	<u>27,134,693</u>	<u>1,569,471</u>	<u>-</u>	<u>28,704,164</u>
<b>Changes in Net Assets</b>	19,814,353	34,202,941	4,183,503	58,200,797
<b>Net Assets (Deficit) - Beginning of year</b>	<u>(16,881,083)</u>	<u>138,463,261</u>	<u>145,022,370</u>	<u>266,604,548</u>
<b>Net Assets - End of year</b>	<u><b>\$ 2,933,270</b></u>	<u><b>\$ 172,666,202</b></u>	<u><b>\$ 149,205,873</b></u>	<u><b>\$ 324,805,345</b></u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Gifts and contributions	\$ (206,650)	\$ 18,860,243	\$ 4,791,115	\$ 23,444,708
University support	5,031,373	-	-	5,031,373
Income from investments:				
Interest and dividends	471,932	4,235,479	2,980	4,710,391
Sold during the year (realized gain (loss))	(1,134,140)	(11,320,165)	(572,151)	(13,026,456)
Held at year end (unrealized loss)	(18,603,830)	(32,925,020)	8,186,050	(43,342,800)
Revenues from sales, services, and events	194,197	13,492	-	207,689
Change in value - Split-interest agreements	11,478	(452,459)	(112,260)	(553,241)
Administrative fee income	1,323,243	(1,291,295)	(31,948)	-
Other	140,944	199,274	39,835	380,053
Related entity revenues	8,181,890	1,058,061	-	9,239,951
	<u>(4,589,563)</u>	<u>(21,622,390)</u>	<u>12,303,621</u>	<u>(13,908,332)</u>
Total revenues and other support				
Net assets released from restrictions - Satisfaction of program restrictions:				
Academic support	1,153,812	(1,153,812)	-	-
Alumni relations	6,794	(6,794)	-	-
Fund-raising and development	13,831	(13,831)	-	-
Institutional support	973,288	(973,288)	-	-
Instruction and departmental research	7,446,525	(7,237,215)	(209,310)	-
Intercollegiate athletics	534,821	(534,821)	-	-
Operation and maintenance of plant	730,148	(730,148)	-	-
Public service	167,112	(167,112)	-	-
Research	132,586	(132,586)	-	-
Student aid	3,502,746	(3,502,746)	-	-
Student services	270,241	(270,241)	-	-
Related entity operations	119,460	(119,460)	-	-
	<u>15,051,364</u>	<u>(14,842,054)</u>	<u>(209,310)</u>	<u>-</u>
Total net assets released from restrictions				
Total revenues, other support, and net assets released from restrictions	<u>10,461,801</u>	<u>(36,464,444)</u>	<u>12,094,311</u>	<u>(13,908,332)</u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Activities (Continued)

### Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Program services:				
Academic support	\$ 1,153,812	\$ -	\$ -	\$ 1,153,812
Alumni relations	593,819	-	-	593,819
Institutional support	1,217,926	-	-	1,217,926
Instruction and departmental research	7,555,533	-	-	7,555,533
Intercollegiate athletics	534,885	-	-	534,885
Operation and maintenance of plant	730,148	-	-	730,148
Public service	167,112	-	-	167,112
Research	368,567	-	-	368,567
Student aid	3,502,746	-	-	3,502,746
Student services	270,241	-	-	270,241
Support services:				
Fund-raising and development	6,526,533	-	-	6,526,533
Fund administration	595,194	-	-	595,194
Related entity operations	7,736,657	774,989	-	8,511,646
Total expenses	<u>30,953,173</u>	<u>774,989</u>	<u>-</u>	<u>31,728,162</u>
<b>Changes in Net Assets</b>	(20,491,372)	(37,239,433)	12,094,311	(45,636,494)
<b>Net Assets</b> - Beginning of year	<u>3,610,289</u>	<u>175,702,694</u>	<u>132,928,059</u>	<u>312,241,042</u>
<b>Net Assets (Deficit)</b> - End of year	<u>\$ (16,881,083)</u>	<u>\$ 138,463,261</u>	<u>\$ 145,022,370</u>	<u>\$ 266,604,548</u>

# The Ohio University Foundation and Subsidiaries

## Consolidated Statements of Cash Flows

	Years Ended June 30	
	2010	2009
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 58,200,797	\$ (45,636,494)
Adjustments to reconcile changes in net assets to net cash from operating activities		
Realized investment (gains) losses - Net	(25,954,913)	13,026,456
Noncash items:		
Depreciation and amortization	1,691,182	1,545,203
Unrealized investment (gains) losses - Net	(29,627,957)	43,342,800
(Increase) decrease in cash surrender value of life insurance policies	(21,690)	185,808
Contributions restricted for endowment investments	(679,922)	(4,480,822)
Contributions of land and buildings	-	(9,431,000)
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	(838,261)	154,530
Decrease in trust receivable	-	3,200,000
Decrease in pledges receivable	7,300,751	2,220,300
(Increase) decrease in bequests receivable	(397,399)	872,267
Decrease (increase) in interest and dividends receivable	150,682	(28,245)
Decrease in prepaid expenses	84,224	140,461
Decrease in other assets	20,807	54,175
Increase in accounts payable	994,740	1,329,594
(Decrease) increase in other liabilities	(67,342)	42,919
Increase in deposits held in custody for others	27,224	94,543
Net cash provided by operating activities	<u>10,882,923</u>	<u>6,632,495</u>
<b>Cash Flows from Investing Activities</b>		
Additions to property and equipment	(350,424)	(490,860)
Purchases of investments	(225,283,331)	(96,615,083)
Proceeds from sales of investments	235,655,656	87,325,518
Decrease (increase) in restricted cash	138,688	(69,295)
(Increase) decrease in charitable trusts	(14,134,345)	290,948
(Increase) decrease in investments subject to annuity agreements	(114,434)	472,510
Net cash used in investing activities	<u>(4,088,190)</u>	<u>(9,086,262)</u>
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for endowment investment	679,922	4,480,822
Payments on notes and bonds payable	(941,000)	(893,900)
Net change in annuity obligations	3,229,490	(415,575)
Net cash provided by financing activities	<u>2,968,412</u>	<u>3,171,347</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>9,763,145</u>	<u>717,580</u>
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>10,544,532</u>	<u>9,826,952</u>
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 20,307,677</u>	<u>\$ 10,544,532</u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid during the year for interest	<u>\$ 221,213</u>	<u>\$ 739,815</u>

# **The Ohio University Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements June 30, 2010 and 2009**

### **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).

As of June 30, 2009, the Foundation owned a minority interest (44.18 percent) in Diagnostic Hybrids, Inc. (DHI), which develops and manufactures tissue cell cultures, antibody kits, and biological reagents for use in medical laboratories. DHI, including the Foundation's ownership interest, was sold to an independent third party in February, 2010, as discussed in Note 5.

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 supported 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 non-profit 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 the 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 the Fritz J. and Dolores H. Russ Holdings LLC. The Fritz J. and Dolores H. Russ Holdings LLC is the sole member of the Russ North Valley Road LLC and Russ Research Center LLC.



# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### 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 revenues 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. 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 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 company that operates the Inn is responsible for collection of receivables (see Note 10). The Inn provides a reserve for any estimated uncollectible balances.

**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 statement of activities as net assets released from restrictions.

# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

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

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 a risk-free interest rate. The discount rate utilized was 5.10 percent and 5.16 percent for the years ended June 30, 2010 and 2009, 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. Purchases and sales of investments are accounted for as of the trade date. See Note 5 for valuation policy for alternative investments.

# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

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

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

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

Depreciation of buildings is recorded over periods ranging from 10 to 40 years using the straight-line method. Depreciation and amortization of other property, equipment, and improvements are recorded over periods ranging from 5 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, 2010 and 2009.

**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.

# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

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

**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 \$22,226 and \$32,052, for the years ended June 30, 2010 and 2009, respectively.

**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, 2010 and 2009.

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 material effect on the estimated fair value amounts.

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

**Reclassification** - Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including October 15, 2010, which is the date the financial statements were available to be 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.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 3 - Net Assets (Continued)

Unrestricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	2010	2009
Board-designated quasi-endowment	\$ 10,058,446	\$ 7,954,576
Board-designated 1804 fund	536,655	448,437
Designated underwater accounts	(8,947,560)	(14,246,147)
Undesignated:		
Housing	\$ (1,804,157)	\$ (2,127,764)
Other	<u>3,089,886</u>	<u>(8,910,185)</u>
Unrestricted net assets	<u>\$ 2,933,270</u>	<u>\$ (16,881,083)</u>

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

Temporarily restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	2010	2009
Academic support	\$ 7,855,886	\$ 6,915,282
Alumni relations	562,788	420,763
Fund-raising and development	914,291	733,138
Institutional support	9,484,732	10,013,887
Instruction and departmental research	122,345,493	88,737,312
Intercollegiate athletics	1,646,220	2,084,830
Operation and maintenance of plant	426,762	5,717,957
Other	14,860	-
Public service	482,723	232,679
Research	1,316,332	1,061,357
Student aid	26,310,398	21,470,686
Student services	<u>1,305,717</u>	<u>1,075,370</u>
Total	<u>\$ 172,666,202</u>	<u>\$ 138,463,261</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 3 - Net Assets (Continued)

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

Permanently restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Academic support	\$ 6,583,640	\$ 6,055,601
Alumni relations	518,445	497,101
Fund-raising and development	240,100	217,615
Institutional support	4,927,403	4,347,382
Instruction and departmental research	54,978,608	63,492,129
Intercollegiate athletics	1,072,935	1,393,544
Other	148,434	306,244
Public service	353,368	353,368
Research	587,953	568,174
Student aid	77,183,675	65,184,231
Student services	<u>2,611,312</u>	<u>2,606,981</u>
Total	<u>\$ 149,205,873</u>	<u>\$ 145,022,370</u>

### Note 4 - Pledges Receivable

Amounts included in pledges receivable for unconditional promises to give at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 16,098,398	\$ 25,739,179
Less allowance for uncollectibles	<u>(2,527,449)</u>	<u>(4,555,835)</u>
Subtotal	13,570,949	21,183,344
Less unamortized discount	<u>(1,276,005)</u>	<u>(1,587,649)</u>
Unconditional promises to give - Net	<u>\$ 12,294,944</u>	<u>\$ 19,595,695</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 4 - Pledges Receivable (Continued)

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Amounts due in:				
Less than one year	\$ 2,138,524	\$ 1,881,502	\$ 5,604,478	\$ 3,664,997
One to five years	2,419,797	5,851,265	3,235,810	6,197,977
More than five years	<u>120</u>	<u>3,736</u>	<u>222</u>	<u>892,211</u>
Total	<u>\$ 4,558,441</u>	<u>\$ 7,736,503</u>	<u>\$ 8,840,510</u>	<u>\$ 10,755,185</u>

As of June 30, 2010, the Foundation has approximately \$72,064,000 in numerous outstanding pledges which 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 asset allocation of the Foundation's investments at June 30, 2010 and 2009 is summarized in the following table:

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

#### Fair Value and Cost of Investments at June 30, 2010 and 2009

	June 30, 2010		June 30, 2009	
	Fair Value	Cost	Fair Value	Cost
Fixed income investments				
Money markets	\$ 18,899,091	\$ 18,899,091	\$ 1,188,406	\$ 1,188,406
US government obligations	31,621	30,533	32,514	30,527
US government agency obligations	-	-	121,490	113,994
Corporate bonds and notes	249,151	241,776	129,430	129,614
Bond mutual funds	30,431,548	28,210,939	41,413,741	41,358,298
TIPS mutual funds	11,664,893	11,429,135	-	-
Subtotal fixed income	<u>61,276,304</u>	<u>58,811,474</u>	<u>42,885,581</u>	<u>42,820,839</u>
Public equity investments				
US large cap common stock	794,692	857,738	693,133	701,626
US small cap common stock	6,859,022	6,397,703	9,536,847	9,466,451
US large cap equity mutual funds	47,373,460	51,830,173	40,837,278	54,925,545
US small cap equity mutual funds	-	-	7,005,763	9,184,702
Developed international equity mutual funds	38,918,569	41,855,911	26,903,812	33,862,525
Emerging markets international equity mutual funds	10,084,427	6,128,932	6,608,276	5,063,870
Global equity mutual funds	2,771,713	4,146,150	1,635,702	2,865,720
Subtotal global equity	<u>106,801,883</u>	<u>111,216,607</u>	<u>93,220,811</u>	<u>116,070,439</u>
Alternative investments				
Commodities	8,305,151	12,171,131	7,677,225	12,455,289
REITs	2,964,108	2,934,501	-	-
Absolute return funds	46,868,395	50,047,241	44,941,527	48,980,528
Private equity funds	27,422,472	24,070,574	20,031,044	21,026,290
Private real estate funds	8,375,982	8,127,778	5,674,982	4,175,471
Venture capital funds	2,618,032	3,864,880	2,189,470	3,679,962
Direct private equity investments	6,208,371	522,477	-	-
Subtotal alternative investments	<u>102,762,511</u>	<u>101,738,582</u>	<u>80,514,248</u>	<u>90,317,540</u>
Equity method investments (not reported at fair value)				
Direct private equity investments	-	-	9,009,512	3,467,829
Subtotal equity method investments	<u>-</u>	<u>-</u>	<u>9,009,512</u>	<u>3,467,829</u>
Total investments	<u>\$ 270,840,698</u>	<u>\$ 271,766,663</u>	<u>\$ 225,630,152</u>	<u>\$ 252,676,647</u>

The Foundation reports investments and split-interest agreements at estimated fair value, in accordance with the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures* (Formerly SFAS 157). This hierarchy was adopted as of July 1, 2008 and involves an analysis of the types of inputs used to derive an asset's reported fair value, as follows:

**Level I** - 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 I 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.



# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

**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, absolute return funds, private equity, private real estate, and venture capital funds. The Foundation's Level 3 liabilities relate to split-interest agreements and are valued using an actuarial approach.

In instances where 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, 2010 and 2009 are summarized in the following tables:

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on the Recurring Basis at June 30, 2010

	June 30, 2010	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>				
<b>Fixed income investments</b>				
Money markets	\$ 18,899,091	\$ 374,742	\$ 18,524,349	\$ -
US government obligations	31,621	-	31,621	-
Corporate bonds and notes	249,151	-	249,151	-
Bond mutual funds	30,431,548	29,145,353	1,111,195	175,000
TIPS mutual funds	11,664,893	11,664,893	-	-
Subtotal fixed income	<u>61,276,304</u>	<u>41,184,988</u>	<u>19,916,316</u>	<u>175,000</u>
<b>Public equity investments</b>				
US large cap common stock	794,692	794,692	-	-
US small cap common stock	6,859,022	6,859,022	-	-
US large cap equity mutual funds	47,373,460	47,373,460	-	-
Developed international equity mutual funds	38,918,569	38,918,569	-	-
Emerging markets international equity mutual funds	10,084,427	1,225,100	8,859,327	-
Global equity mutual funds	2,771,713	2,771,713	-	-
Subtotal global equity	<u>106,801,883</u>	<u>97,942,556</u>	<u>8,859,327</u>	<u>-</u>
<b>Alternative investments</b>				
Commodities	8,305,151	-	-	8,305,151
REITs	2,964,108	2,964,108	-	-
Absolute return funds	46,868,395	-	-	46,868,395
Private equity funds	27,422,472	-	-	27,422,472
Private real estate funds	8,375,982	-	-	8,375,982
Venture capital funds	2,618,032	-	-	2,618,032
Direct private equity investments	6,208,371	-	-	6,208,371
Subtotal alternative investments	<u>102,762,511</u>	<u>2,964,108</u>	<u>-</u>	<u>99,798,403</u>
Total investments	<u>\$ 270,840,698</u>	<u>\$ 142,091,652</u>	<u>\$ 28,775,643</u>	<u>\$ 99,973,403</u>
<b>Split-Interest Agreements</b>				
<b>Charitable gift annuities</b>				
Assets	\$ 2,131,740	\$ 1,788,424	\$ 343,316	\$ -
Liabilities	1,566,510	-	-	1,566,510
Charitable gift annuities - Net assets	<u>565,230</u>	<u>1,788,424</u>	<u>343,316</u>	<u>(1,566,510)</u>
<b>Charitable trusts</b>				
Assets	16,715,185	15,843,665	-	871,520
Liabilities	4,251,212	-	-	4,251,212
Charitable trusts - Net assets	<u>12,463,973</u>	<u>15,843,665</u>	<u>-</u>	<u>(3,379,692)</u>
Total split-interest agreements	<u>\$ 13,029,203</u>	<u>\$ 17,632,089</u>	<u>\$ 343,316</u>	<u>\$ (4,946,202)</u>
Total fair value measurements	<u>\$ 283,869,901</u>	<u>\$ 159,723,741</u>	<u>\$ 29,118,959</u>	<u>\$ 95,027,201</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on the Recurring Basis at June 30, 2009

	June 30, 2009	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>				
<b>Fixed income investments</b>				
Money markets	\$ 1,188,406	\$ 15,671	\$ -	\$ 1,172,735
US government obligations	32,514	-	32,514	-
US government agency obligations	121,490	-	121,490	-
Corporate bonds and notes	129,430	-	129,430	-
Bond mutual funds	41,413,741	39,833,814	-	1,579,927
Subtotal fixed income	42,885,581	39,849,485	283,434	2,752,662
<b>Public equity investments</b>				
US large cap common stock	693,133	693,133	-	-
US small cap common stock	9,536,847	9,536,847	-	-
US large cap equity mutual funds	40,837,278	761,656	-	40,075,622
US small cap equity mutual funds	7,005,763	7,005,763	-	-
Developed international equity mutual funds	26,903,812	14,069,003	-	12,834,809
Emerging markets international equity mutual funds	6,608,276	-	-	6,608,276
Global equity mutual funds	1,635,702	1,635,702	-	-
Subtotal global equity	93,220,811	33,702,104	-	59,518,707
<b>Alternative investments</b>				
Commodities	7,677,225	-	-	7,677,225
Absolute return funds	44,941,527	-	-	44,941,527
Private equity funds	20,031,044	-	-	20,031,044
Private real estate funds	5,674,982	-	-	5,674,982
Venture capital funds	2,189,470	-	-	2,189,470
Subtotal alternative investments	80,514,248	-	-	80,514,248
Total investments	\$ 216,620,640	\$ 73,551,589	\$ 283,434	\$ 142,785,617
<b>Split-Interest Agreements</b>				
<b>Charitable gift annuities</b>				
Assets	\$ 2,017,306	\$ 2,017,306	\$ -	\$ -
Liabilities	1,631,555	-	-	1,631,555
Charitable gift annuities - Net assets	385,751	2,017,306	-	(1,631,555)
<b>Charitable trusts</b>				
Assets	2,580,840	1,671,497	-	909,343
Liabilities	956,677	-	-	956,677
Charitable trusts - Net assets	1,624,163	1,671,497	-	(47,334)
Total split-interest agreements	\$ 2,009,914	\$ 3,688,803	\$ -	\$ (1,678,889)
Total fair value measurements	\$ 218,630,554	\$ 77,240,392	\$ 283,434	\$ 141,106,728

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

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, however, 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.

As of June 30, 2009, the Foundation reported commingled money market, fixed income, and public equity investments as Level 3 assets. Although the underlying securities in these accounts were largely classified as either Level 1 or Level 2, the Foundation conservatively categorized these assets as Level 3 investments, as they were not registered with the Securities and Exchange Commission and did not trade on an exchange. An amendment to ASC 820 released in September 2009 provides that the fair value measurement of an investment shall be categorized as Level 2 if the reporting entity has the ability to redeem its investment with the investee at the net asset value (NAV) per share at the measurement date. Based on this guidance, the Foundation has transferred commingled money market, fixed income and public equity funds from Level 3 to Level 2 investments as of June 30, 2010.

The Foundation is exposed to an absolute return investment, LibertyView Plus Fund, which was managed by Lehman Brothers Holdings Inc. (LBHI), and whose prime broker was Lehman Brothers Inc. (LBI). Due to unprecedented adverse market conditions, on September 15, 2008, Lehman Brothers International Europe (LBIE) was placed into administration in the U.K. and LBHI filed for protection under the U.S. Bankruptcy Code. Based on guidance from the Foundation's investment consultant, during fiscal year 2009, the investment was written down to \$4.1 million, or 60 percent of the NAV reported just prior to the bankruptcy filings. During fiscal year 2010, the Foundation wrote down the asset by an additional 25 percent, to \$2.4 million, which represents 35 percent of the August 31, 2008 NAV. This valuation takes into consideration those securities that are held by LBI but are currently subject to bankruptcy proceedings. The timing and amount of distributions from the fund are contingent upon the outcome of the bankruptcy proceedings and are unknown at this time.

As of June 30, 2009, the Foundation owned a minority interest (44.18 percent) in Diagnostic Hybrids, Inc. (DHI), which develops and manufactures tissue cell cultures, antibody kits, and biological reagents for use in medical laboratories. Using the equity method of accounting, the Foundation reported DHI as a direct private equity investment valued at \$9.0 million as of June 30, 2009. DHI was sold to an independent third party in February, 2010. As a result of this transaction, during fiscal year 2010 the Foundation received sale proceeds totaling \$35.0 million. This represents approximately 85 percent of the consideration to be received. The remaining 15 percent, with an estimated fair value of \$6.2 million, represents the amount to be held in escrow for 18

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

months from the date of the sale. This amount is reported as a direct private equity investment as of June 30, 2010.

Additional information on the changes in Level 3 assets is summarized in the table below:

#### Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurements using Significant Unobservable Inputs (Level 3)					
	Fixed Income Investments			Public Equity Investments		
	Total Level 3 Investments	Money Markets	Bond Mutual Funds	US Large Cap Equity Mutual Funds	Developed International Equity Mutual Funds	Emerging Markets International Equity Mutual Funds
Beginning balance	\$ 142,785,617	\$ 1,172,735	\$ 1,579,927	\$ 40,075,622	\$ 12,834,809	\$ 6,608,276
Transfers into (out of) Level 3						
Transfers into Level 3	9,009,512	-	-	-	-	-
Transfers out of Level 3	(62,071,369)	(1,172,735)	(1,379,927)	(40,075,622)	(12,834,809)	(6,608,276)
Total transfers into (out of) Level 3	(53,061,857)	(1,172,735)	(1,379,927)	(40,075,622)	(12,834,809)	(6,608,276)
Gains (losses) included in changes in net assets						
Realized gains (losses)	33,154,801	-	-	-	-	-
Unrealized gains (losses)	8,909,241	-	-	-	-	-
Total gains (losses)	42,064,042	-	-	-	-	-
Purchases and sales						
Purchases	5,834,542	-	-	-	-	-
Sales	(37,648,941)	-	(25,000)	-	-	-
Total purchases and sales	(31,814,399)	-	(25,000)	-	-	-
Ending balance	\$ 99,973,403	\$ -	\$ 175,000	\$ -	\$ -	\$ -

	Fair Value Measurements using Significant Unobservable Inputs (Level 3) (continued)					
	Alternative Investments					
	Commodities	Absolute Return Funds	Private Equity Funds	Private Real Estate Funds	Venture Capital Funds	Direct Private Equity Investments
Beginning balance	\$ 7,677,225	\$ 44,941,527	\$ 20,031,044	\$ 5,674,982	\$ 2,189,470	\$ -
Transfers into (out of) Level 3						
Transfers into Level 3	-	-	-	-	-	9,009,512
Transfers out of Level 3	-	-	-	-	-	-
Total transfers into (out of) Level 3	-	-	-	-	-	9,009,512
Gains (losses) included in changes in net assets						
Realized gains (losses)	(205,363)	-	1,307,210	-	-	32,052,954
Unrealized gains (losses)	829,181	1,926,868	4,800,487	964,852	243,643	144,210
Total gains (losses)	623,818	1,926,868	6,107,697	964,852	243,643	32,197,164
Purchases and sales						
Purchases	204,215	-	3,282,626	2,047,912	299,789	-
Sales	(200,107)	-	(1,998,895)	(311,764)	(114,870)	(34,998,305)
Total purchases and sales	4,108	-	1,283,731	1,736,148	184,919	(34,998,305)
Ending balance	\$ 8,305,151	\$ 46,868,395	\$ 27,422,472	\$ 8,375,982	\$ 2,618,032	\$ 6,208,371

	Fair Value Measurements using Significant Unobservable Inputs (Level 3) (continued)					
	Split-Interest Agreements					
	Total Level 3 Split-Interest Net Assets	Total Level 3 Split-Interest Assets	Total Level 3 Split-Interest Liabilities	Charitable Gift Annuity Liabilities	Charitable Trust Assets	Charitable Trust Liabilities
Beginning balance	\$ (1,678,889)	\$ 909,343	\$ (2,588,232)	\$ 1,631,555	\$ 909,343	\$ 956,677
Transfers into (out of) Level 3						
Transfers into Level 3	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-
Total transfers into (out of) Level 3	-	-	-	-	-	-
Change in value of split interest agreements included in changes in net assets						
Obligations under new split-interest agreements	(3,513,082)	-	(3,513,082)	104,837	-	3,408,245
Payments to beneficiaries	1,090,930	-	1,090,930	(310,800)	-	(780,130)
Change in actuarial estimate	(845,161)	(37,823)	(807,338)	140,918	(37,823)	666,420
Total change in value	(3,267,313)	(37,823)	(3,229,490)	(65,045)	(37,823)	3,294,535
Ending balance	\$ (4,946,202)	\$ 871,520	\$ (5,817,722)	\$ 1,566,510	\$ 871,520	\$ 4,251,212

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Fair Value Measurements (Continued)

The amendment to ASC 820 released in September 2009 also permits the Foundation to use the NAV, as a practical expedient, to estimate the fair value of an investment fund. 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 table provides 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				
	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Termination Date	Unfunded Commitment
Fixed income investments					
Money markets (Level 2)	\$ 18,899,048	daily	none	not applicable	\$ -
Bond mutual funds (Level 2)	1,111,195	daily	1 day	not applicable	-
Bond mutual funds (Level 3)	175,000	not liquid	not liquid	not liquid	-
Subtotal fixed income	<u>20,185,243</u>				<u>-</u>
Public equity investments					
Emerging markets international equity mutual funds (Level 2)	8,859,327	monthly	30 days	not applicable	-
Subtotal global equity	<u>8,859,327</u>				<u>-</u>
Alternative investments					
Commodities (Level 3)	8,305,151	monthly	10 - 30 days	not applicable	-
Absolute return funds (Level 3)	44,445,580	quarterly	60 - 65 days	not applicable	-
Private equity funds (Level 3)	27,422,472	not liquid	not liquid	2011 - 2018	7,025,020
Private real estate funds (Level 3)	8,375,982	not liquid	not liquid	2012 - 2018	5,455,189
Venture capital funds (Level 3)	2,618,032	not liquid	not liquid	2011 - 2014	1,326,251
Direct private equity investments (Level 3)	6,208,371	not liquid	not liquid	2011	-
Subtotal alternative investments	<u>97,375,588</u>				<u>13,806,460</u>
Total investments	<u>\$ 126,420,158</u>				<u>\$ 13,806,460</u>

Because financial data for many private investments is not available until several months after fiscal year end, some reported investment valuations represent an estimate of the June 30 net asset value, while the remaining valuations represent March 31 reported net asset valuations that have been adjusted by cash added to and cash distributed from these accounts through June 30. Management considers information that becomes available after the financial statements are compiled but before they are released, to determine whether an adjustment to the reported fair value of the investment should be made. For fiscal year 2010, there were \$80.9 million in investment assets reported at the estimated net asset values described above, and all are listed as Level 3 assets. After the financial statements were compiled, management learned that unrealized gains for the period ended June 30, related to alternative investments, totaled approximately \$0.4 million. This amount was not incorporated in the amounts disclosed above.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 6 - Donor and Board Restricted Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees as quasi-endowments. 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 or as unrestricted net assets until those amounts are distributed 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
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 6 - Donor and Board Restricted Endowments (Continued)

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	\$ -	\$ 24,726,079	\$ 137,891,194	\$ 162,617,273
Board designated (quasi) endowment created with donor restricted funds	-	79,135,108	-	79,135,108
Board designated (quasi) endowment	<u>10,058,443</u>	<u>-</u>	<u>-</u>	<u>10,058,443</u>
Total funds	<u>\$ 10,058,443</u>	<u>\$ 103,861,187</u>	<u>\$ 137,891,194</u>	<u>\$ 251,810,824</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of the year	\$ 7,954,576	\$ 72,997,987	\$ 131,113,746	\$ 212,066,309
Net realized and unrealized gains and losses	2,417,708	35,877,859	3,457,772	41,753,339
Contributions	-	50,040	3,347,930	3,397,970
Spending policy transfer	(246,764)	(4,432,665)	-	(4,679,429)
Transfers to/(from) board designated endowments	-	33,952	-	33,952
Administrative fee	<u>(67,077)</u>	<u>(665,986)</u>	<u>(28,254)</u>	<u>(761,317)</u>
Market value - End of the year	<u>\$ 10,058,443</u>	<u>\$ 103,861,187</u>	<u>\$ 137,891,194</u>	<u>\$ 251,810,824</u>



# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 6 - Donor and Board Restricted Endowments (Continued)

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	\$ -	\$ 8,059,453	\$ 131,113,746	\$ 139,173,199
Board designated (quasi) endowment created with donor restricted funds	-	64,938,534	-	64,938,534
Board designated (quasi) endowment	<u>7,954,576</u>	<u>-</u>	<u>-</u>	<u>7,954,576</u>
Total funds	<u>\$ 7,954,576</u>	<u>\$ 72,997,987</u>	<u>\$ 131,113,746</u>	<u>\$ 212,066,309</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of the year	\$ 12,794,776	\$ 129,994,939	\$ 117,524,205	\$ 260,313,920
Net realized and unrealized gains and losses	(4,419,992)	(57,563,647)	7,688,777	(54,294,862)
Contributions	58,332	2,968,386	5,932,712	8,959,430
Spending policy transfer	(111,697)	(1,110,396)	-	(1,222,093)
Transfers to/(from) board designated endowments	(268,635)	-	-	(268,635)
Administrative fee	<u>(98,208)</u>	<u>(1,291,295)</u>	<u>(31,948)</u>	<u>(1,421,451)</u>
Market value - End of the year	<u>\$ 7,954,576</u>	<u>\$ 72,997,987</u>	<u>\$ 131,113,746</u>	<u>\$ 212,066,309</u>

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 6 - Donor and Board Restricted Endowments (Continued)

**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 ("Underwater Accounts"). In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$8,947,560 and \$14,246,147 as of June 30, 2010 and 2009, 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 twelve-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 nine percent annually, gross of investment management fees of approximately one percent. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-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** - The Foundation's spending policy stipulates that five percent of a three-year moving average of the market value of the endowment is available to spend, with one percent of the amount being set aside to support the Foundation's administrative expenses. The spending rate applies to all endowment accounts except underwater accounts, where spending is limited to earned interest and dividends. 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 three 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.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 7 - Property and Equipment

As of June 30, 2010 and 2009, property and equipment are as follows:

	2010	2009
Land	\$ 5,464,841	\$ 5,464,841
Land improvements	683,258	661,503
Building and building improvements	39,715,904	39,700,503
Furnishings, fixtures, and equipment	4,772,923	4,590,521
Construction in progress	-	4,390
Subtotal	50,636,926	50,421,758
Less accumulated depreciation and amortization	(14,625,294)	(13,120,410)
Property and equipment - Net	<u>\$ 36,011,632</u>	<u>\$ 37,301,348</u>

Total depreciation expense of \$1,640,139 and \$1,494,160 was recorded in fiscal years 2010 and 2009, respectively.

### Note 8 - Support from Ohio University

During 2010 and 2009, the University paid certain payroll costs amounting to \$4,586,235 and \$4,908,642 and additional costs of \$72,929 and \$122,731, 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 material to the results of activities of the Foundation.

### 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 at a rate established at the beginning of the agreement. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. The discount rate applied to gift annuities held at June 30, 2010 and 2009 ranged from 2.4 percent to 9.4 percent.

# The Ohio University Foundation and Subsidiaries

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 9 - Split-interest Agreements (Continued)

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

In instances where the donor has not specifically reserved the right to change the remainderman, and all assets of charitable remainder 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 receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. The trustee disburses income earned on the assets of the charitable remainder 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 present value of the future payments to the donor-designated beneficiary is determined using a discount rate established at the beginning of the trust. At June 30, 2010 and 2009, the discount rate applied to the charitable remainder trusts was 5.10 percent and 5.16 percent, respectively.

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

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 9 - Split-interest Agreements (Continued)

**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 fair market value will be recorded for the trust. Revenue is recorded for all Lead Trust income stream payments, as well as a reduction to the receivable.

**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 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 in which an income stream is provided. The income stream is paid to the donor and/or the donor-designated beneficiaries whereby 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, whereby the Foundation 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 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 statement of financial position or the consolidated statement 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 the University employees, alumni, and guests. As a significant portion of the Inn's revenues is derived from these customers, the Foundation is committed to financially supporting the Inn.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 10 - Inn-Ohio of Athens, Inc. (Continued)

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

**Operations** - The Inn's operations for the years ended June 30, 2010 and 2009 are summarized below:

	<u>2010</u>	<u>2009</u>
Revenue	\$ 4,138,879	\$ 4,110,554
Operating and general expenses	3,344,159	3,324,378
Depreciation and amortization	558,022	530,262
Interest expense - Net	147,795	161,635
Provision for income taxes	22,226	32,052
Distribution	<u>2,500</u>	<u>-</u>
Total expenses	<u>4,074,702</u>	<u>4,048,327</u>
Net income	64,177	62,227
Unrealized gains	<u>62,918</u>	<u>8,899</u>
Change in net assets	<u>\$ 127,095</u>	<u>\$ 71,126</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 2010 and 2009, base management fees incurred by the Inn with respect to the Manager were \$100,000 per year and incentive fees were \$80,353 and \$74,656, respectively.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 10 - Inn-Ohio of Athens, Inc. (Continued)

The Inn has alternative minimum tax credit carryforwards of approximately \$40,000 at July 2, 2010 and \$40,000 at July 3, 2009, which have indefinite lives.

**Debt Obligations** - Long-term debt of the Inn as of July 3, 2010 and June 27, 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Term loan - Principal due through June 2021, interest at 6.2 percent through June 2011 and adjusted thereafter	\$ 3,265,600	\$ 3,466,600
Less current portion of long-term debt	<u>(213,800)</u>	<u>(201,000)</u>
Total	<u>\$ 3,051,800</u>	<u>\$ 3,265,600</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.

Substantially all of the property and equipment are pledged as collateral for the term loan. The interest rate on the new term loan is fixed at 6.2 percent through June 2011. The interest rate will be adjusted to the index rate as defined in the agreement plus 1.4 percent in June 2011 and every five years thereafter.

Maturities of long-term debt at July 3, 2010 are set forth in the following schedule:

<u>Year Ending</u>	<u>Amount</u>
2011	\$ 213,800
2012	227,400
2013	242,000
2014	257,400
2015	273,700
Due thereafter	<u>2,051,300</u>
Total	<u>\$ 3,265,600</u>

The fair value of the debt obligations approximates the carrying value at June 30, 2010 and 2009.

# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### 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, 2010 and 2009 are summarized below:

	<u>2010</u>	<u>2009</u>
Revenue	\$ 3,062,598	\$ 4,062,437
Operating and general expenses	1,269,907	1,535,016
Depreciation and amortization	849,452	855,430
Interest expense and bond fees	468,609	887,365
Tax and insurance	<u>151,023</u>	<u>291,059</u>
Total expenses	<u>2,738,991</u>	<u>3,568,870</u>
Change in net assets	<u>\$ 323,607</u>	<u>\$ 493,567</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 average interest rate for the years ended June 30, 2010 and 2009 was 0.25 percent and 1.74 percent, respectively, and the actual interest rates at June 30, 2010 and 2009 were 0.31 percent and 0.30 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 revenues of University Courtyard Apartments and related assets. The Foundation has made no additional pledge of assets or revenues to the 2000 Bonds, which are nonrecourse to the Foundation.



# The Ohio University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 11 - Housing for Ohio, Inc. (Continued)

Principal payments for the bonded debt for the years subsequent to June 30, 2010 are summarized as follows:

Years Ending June 30	Principal
2011	\$ 705,000
2012	740,000
2013	780,000
2014	820,000
2015	865,000
Thereafter	<u>24,285,000</u>
Total	<u>\$ 28,195,000</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 \$26,157 during each of the years ended June 30, 2010 and 2009.

Additionally, Housing has an outstanding promissory note to the Project's developer in the original amount of \$700,000. The note is payable in 10 annual installments of \$70,000 through June 2014. The payment terms are predicated on the Project's current management company remaining the manager of the Project. In the event that the current management company's services are terminated prior to the final payment, the remaining balance shall become immediately due and payable. There is no interest accruing on the note, and management of Housing believes that the present value discount of future payments and the calculation of imputed interest on this note are not material to the consolidated financial statements.

Maturities of the note payable at June 30, 2010 are set forth in the following schedule:

Years Ending June 30	Principal
2011	\$ 70,000
2012	70,000
2013	70,000
2014	<u>70,000</u>
Total	<u>\$ 280,000</u>

# **The Ohio University Foundation and Subsidiaries**

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## **Notes to Consolidated Financial Statements June 30, 2010 and 2009**

### **Note 12 - Subsequent Event**

The Board of Trustees passed a resolution on July 24, 2010 to allocate proceeds from the DHI transaction that related to the endowment pool investment in DHI. Upon further review, the Board of Trustees passed a motion on October 15, 2010 to table the July 24, 2010 resolution to allow management the opportunity to further review the gift agreements included in the endowment pool for purposes of determining the proper allocation of the DHI proceeds between permanently restricted, temporarily restricted, and unrestricted net assets.

## **Supplemental Information**

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# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Financial Position June 30, 2010

	The Foundation	The Inn	Housing	Supporting Organization	Russ LLCs	Eliminations	Total
<b>Assets</b>							
Assets:							
Cash and cash equivalents	\$ 16,507,722	\$ 745,735	\$ 1,380,434	\$ -	\$ 1,673,786	\$ -	\$ 20,307,677
Accounts receivable - Net	381,398	72,361	6,560	-	31,947	-	492,266
Related party receivable - Net	595,012	-	-	-	104,988	(700,000)	-
Pledges receivable - Net	12,294,944	-	-	-	-	-	12,294,944
Bequests receivable	949,252	-	-	-	-	-	949,252
Interest and dividends receivable	190,645	-	-	2,916	-	-	193,561
Prepaid expenses	23,439	28,707	776,217	-	-	-	828,363
Investments	266,121,463	1,111,195	-	4,719,235	-	(1,111,195)	270,840,698
Investment in Inn-Ohio of Athens, Inc.	2,988,095	-	-	-	-	(2,988,095)	-
Cash surrender value - Life insurance policies	1,856,346	-	-	-	-	-	1,856,346
Charitable trusts	16,715,185	-	-	-	-	-	16,715,185
Charitable gift annuities	2,131,740	-	-	-	-	-	2,131,740
Deposits with trustees - Restricted cash	-	-	3,335,751	-	-	-	3,335,751
Property and equipment - Net	1,193,985	4,835,480	20,923,756	-	9,058,411	-	36,011,632
Other assets	-	81,657	590,779	-	-	-	672,436
<b>Total assets</b>	<b>\$ 321,949,226</b>	<b>\$ 6,875,135</b>	<b>\$ 27,013,497</b>	<b>\$ 4,722,151</b>	<b>\$ 10,869,132</b>	<b>\$ (4,799,290)</b>	<b>\$ 366,629,851</b>
<b>Liabilities and Net Assets (Deficit)</b>							
Liabilities:							
Accounts payable, Ohio University	\$ 2,361,549	\$ -	\$ -	\$ -	\$ 104,923	\$ -	\$ 2,466,472
Accounts payable, trade	333,404	520,316	197,317	-	238,532	-	1,289,569
Accounts payable, related party	-	-	-	-	700,000	(700,000)	-
Deposits held in custody for others	1,329,589	-	42,378	-	45,288	(1,111,195)	306,060
Annuities payable	1,566,510	-	-	-	-	-	1,566,510
Charitable trusts obligations	4,251,212	-	-	-	-	-	4,251,212
Bonds payable	-	-	28,195,000	-	-	-	28,195,000
Notes payable	-	3,265,600	280,000	-	-	-	3,545,600
Other liabilities	-	101,124	102,959	-	-	-	204,083
<b>Total liabilities</b>	<b>9,842,264</b>	<b>3,887,040</b>	<b>28,817,654</b>	<b>-</b>	<b>1,088,743</b>	<b>(1,811,195)</b>	<b>41,824,506</b>
Net assets (deficit):							
Unrestricted	4,737,427	-	(1,804,157)	-	-	-	2,933,270
Temporarily restricted	158,163,662	-	-	4,722,151	9,780,389	-	172,666,202
Permanently restricted	149,205,873	-	-	-	-	-	149,205,873
<b>Total net assets</b>	<b>312,106,962</b>	<b>-</b>	<b>(1,804,157)</b>	<b>4,722,151</b>	<b>9,780,389</b>	<b>-</b>	<b>324,805,345</b>
Stockholders' equity:							
Common stock	-	3,429,182	-	-	-	(3,429,182)	-
Additional paid-in capital	-	4,140,455	-	-	-	(4,140,455)	-
Retained earnings	-	(4,581,542)	-	-	-	4,581,542	-
<b>Total stockholders' equity</b>	<b>-</b>	<b>2,988,095</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,988,095)</b>	<b>-</b>
<b>Total liabilities and net assets</b>	<b>\$ 321,949,226</b>	<b>\$ 6,875,135</b>	<b>\$ 27,013,497</b>	<b>\$ 4,722,151</b>	<b>\$ 10,869,132</b>	<b>\$ (4,799,290)</b>	<b>\$ 366,629,851</b>

# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Activities Year Ended June 30, 2010

	Unrestricted	The Inn	Housing	Total Unrestricted	Temporarily Restricted	Supporting Organization	Russ LLCs	Total Temporarily Restricted	Total Permanently Restricted	Eliminations	Total
<b>Revenues and Other Support</b>											
Gifts and contributions	\$ 583,134	\$ -	\$ -	\$ 583,134	\$ 13,284,113	\$ -	\$ 85,000	\$ 13,369,113	\$ 679,922	\$ -	\$ 14,632,169
University support	4,659,164	-	-	4,659,164	-	-	-	-	-	-	4,659,164
Income from investments:	-	-	-	-	-	-	-	-	-	-	-
Interest and dividends	201,002	-	-	201,002	2,359,956	84,598	-	2,444,554	3,587	-	2,649,143
Sold during the year (realized gain (loss))	12,641,390	-	-	12,641,390	8,421,198	7,287	-	8,428,485	4,885,038	-	25,954,913
Held at year end (unrealized gain (loss))	7,240,257	-	-	7,240,257	21,679,463	504,663	-	22,184,126	140,656	-	29,565,039
Revenues from sales, services, and events	296,137	-	-	296,137	13,407	-	-	13,407	-	-	309,544
Change in value of split-interest agreements	(2,846)	-	-	(2,846)	(133,585)	-	-	(133,585)	73,878	-	(62,553)
Administrative fee income	694,239	-	-	694,239	(665,986)	-	-	(665,986)	(28,253)	-	-
Other	117,060	-	-	117,060	166,427	-	-	166,427	82,782	-	366,269
Related entity revenues	127,095	4,201,797	3,062,598	7,391,490	595,012	788	1,671,078	2,266,878	-	(827,095)	8,831,273
<b>Total revenues and other support</b>	<b>26,556,632</b>	<b>4,201,797</b>	<b>3,062,598</b>	<b>33,821,027</b>	<b>45,720,005</b>	<b>597,336</b>	<b>1,756,078</b>	<b>48,073,419</b>	<b>5,837,610</b>	<b>(827,095)</b>	<b>86,904,961</b>
<b>Net assets released from restrictions -</b>											
<b>Satisfaction of program restrictions:</b>											
Academic support	1,029,150	-	-	1,029,150	(1,029,150)	-	-	(1,029,150)	-	-	-
Alumni relations	21,808	-	-	21,808	(21,808)	-	-	(21,808)	-	-	-
Fund-raising and development	19,442	-	-	19,442	(19,442)	-	-	(19,442)	-	-	-
Institutional support	1,133,649	-	-	1,133,649	(716,076)	-	-	(716,076)	(417,573)	-	-
Instruction and departmental research	6,958,326	-	-	6,958,326	(5,794,625)	-	-	(5,794,625)	(1,163,701)	-	-
Intercollegiate athletics	754,929	-	-	754,929	(737,098)	-	-	(737,098)	(17,831)	-	-
Operation and maintenance of plant	338,647	-	-	338,647	(338,647)	-	-	(338,647)	-	-	-
Public service	10,547	-	-	10,547	(10,547)	-	-	(10,547)	-	-	-
Research	70,397	-	-	70,397	(70,397)	-	-	(70,397)	-	-	-
Student aid	2,691,673	-	-	2,691,673	(2,636,671)	-	-	(2,636,671)	(55,002)	-	-
Student services	226,546	-	-	226,546	(226,546)	-	-	(226,546)	-	-	-
Related entity operations	-	-	-	-	-	-	-	-	-	-	-
<b>Total net assets released from restrictions</b>	<b>13,255,114</b>	<b>-</b>	<b>-</b>	<b>13,255,114</b>	<b>(11,601,007)</b>	<b>-</b>	<b>-</b>	<b>(11,601,007)</b>	<b>(1,654,107)</b>	<b>-</b>	<b>-</b>
<b>Total revenues, other support, and net assets released from restrictions</b>	<b>39,811,746</b>	<b>4,201,797</b>	<b>3,062,598</b>	<b>47,076,141</b>	<b>34,118,998</b>	<b>597,336</b>	<b>1,756,078</b>	<b>36,472,412</b>	<b>4,183,503</b>	<b>(827,095)</b>	<b>86,904,961</b>

# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Activities (Continued) Year Ended June 30, 2010

	Unrestricted	The Inn	Housing	Total Unrestricted	Temporarily Restricted	Supporting Organization	Russ LLC's	Total Temporarily Restricted	Total Permanently Restricted	Eliminations	Total
<b>Expenses</b>											
Program services:											
Academic support	\$ 1,029,150	\$ -	\$ -	\$ 1,029,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,029,150
Alumni relations	885,904	-	-	885,904	-	-	-	-	-	-	885,904
Institutional support	1,150,844	-	-	1,150,844	-	-	-	-	-	-	1,150,844
Instruction and departmental research	6,181,073	-	-	6,181,073	-	-	-	-	-	-	6,181,073
Intercollegiate athletics	755,590	-	-	755,590	-	-	-	-	-	-	755,590
Operation and maintenance of plant	338,647	-	-	338,647	-	-	-	-	-	-	338,647
Public service	10,547	-	-	10,547	-	-	-	-	-	-	10,547
Research	344,032	-	-	344,032	-	-	-	-	-	-	344,032
Student aid	2,716,335	-	-	2,716,335	-	-	-	-	-	-	2,716,335
Student services	226,546	-	-	226,546	-	-	-	-	-	-	226,546
Support services:											
Fund-raising and development	6,037,475	-	-	6,037,475	-	-	-	-	-	-	6,037,475
Fund administration	644,857	-	-	644,857	-	-	-	-	-	-	644,857
Related entity operations	-	4,074,702	2,738,991	6,813,693	-	156,251	2,113,220	2,269,471	-	(700,000)	8,383,164
Total expenses	<u>20,321,000</u>	<u>4,074,702</u>	<u>2,738,991</u>	<u>27,134,693</u>	<u>-</u>	<u>156,251</u>	<u>2,113,220</u>	<u>2,269,471</u>	<u>-</u>	<u>(700,000)</u>	<u>28,704,164</u>
<b>Changes in Net Assets</b>	19,490,746	127,095	323,607	19,941,448	34,118,998	441,085	(357,142)	34,202,941	4,183,503	(127,095)	58,200,797
<b>Net Assets (Deficit) - Beginning of year</b>	<u>(14,753,319)</u>	<u>2,861,000</u>	<u>(2,127,764)</u>	<u>(14,020,083)</u>	<u>124,044,664</u>	<u>4,281,066</u>	<u>10,137,531</u>	<u>138,463,261</u>	<u>145,022,370</u>	<u>(2,861,000)</u>	<u>266,604,548</u>
<b>Net Assets (Deficit) - End of year</b>	<u>\$ 4,737,427</u>	<u>\$ 2,988,095</u>	<u>\$ (1,804,157)</u>	<u>\$ 5,921,365</u>	<u>\$ 158,163,662</u>	<u>\$ 4,722,151</u>	<u>\$ 9,780,389</u>	<u>\$ 172,666,202</u>	<u>\$ 149,205,873</u>	<u>\$ (2,988,095)</u>	<u>\$ 324,805,345</u>

# The Ohio University Foundation and Subsidiaries

## Consolidating Schedule of Cash Flows Year Ended June 30, 2010

	The Foundation	The Inn	Housing	Supporting Organization	Russ LLCs	Total
<b>Cash Flows From Operating Activities</b>						
Changes in net assets	\$ 57,666,152	\$ 127,095	\$ 323,607	\$ 441,085	\$ (357,142)	\$ 58,200,797
Adjustments to reconcile changes in net assets to net cash from operating activities:						
Realized investment gains - Net	(25,947,626)	-	-	(7,287)	-	(25,954,913)
Noncash items:						
Depreciation and amortization	35,315	558,022	849,452	-	248,393	1,691,182
Unrealized investment gains - Net	(29,060,376)	(62,918)	-	(504,663)	-	(29,627,957)
Increase in cash surrender value of life insurance policies	(21,690)	-	-	-	-	(21,690)
Contributions restricted for endowment investment	(679,922)	-	-	-	-	(679,922)
Changes in current assets and liabilities:						
(Increase) decrease in accounts receivable	(686,443)	(33,795)	1,545	-	(119,568)	(838,261)
Decrease in pledges receivable	7,300,751	-	-	-	-	7,300,751
Increase in bequests receivable	(397,399)	-	-	-	-	(397,399)
(Increase) decrease in interest and dividends receivable	153,598	-	-	(2,916)	-	150,682
(Increase) decrease in prepaid expenses	92,931	(3,201)	(5,506)	-	-	84,224
(Increase) decrease in other assets	-	(2,451)	23,258	-	-	20,807
Increase in accounts payable	24,042	48,840	67,235	-	854,623	994,740
Increase (decrease) in other liabilities	-	4,111	(71,453)	-	-	(67,342)
Increase (decrease) in deposits held in custody for others	48,321	-	(18,297)	-	(2,800)	27,224
Net cash provided by (used in) operating activities	8,527,654	635,703	1,169,841	(73,781)	623,506	10,882,923
<b>Cash Flows From Investing Activities</b>						
Additions to property and equipment	-	(334,777)	(15,647)	-	-	(350,424)
Purchases of investments	(225,132,852)	(60,721)	-	(89,758)	-	(225,283,331)
Proceeds from sales of investments	235,492,117	-	-	163,539	-	235,655,656
Decrease in restricted cash	-	-	138,688	-	-	138,688
Increase in charitable remainder trusts	(14,134,345)	-	-	-	-	(14,134,345)
Increase in investments subject to annuity agreements	(114,434)	-	-	-	-	(114,434)
Net cash (used in) provided by investing activities	(3,889,514)	(395,498)	123,041	73,781	-	(4,088,190)
<b>Cash Flows from Financing Activities</b>						
Contributions restricted for endowment investment	679,922	-	-	-	-	679,922
Payments on notes and bonds payable	-	(201,000)	(740,000)	-	-	(941,000)
Net change in annuity obligations	3,229,490	-	-	-	-	3,229,490
Net cash provided by (used in) financing activities	3,909,412	(201,000)	(740,000)	-	-	2,968,412
<b>Net Increase in Cash and Cash Equivalents</b>	8,547,552	39,205	552,882	-	623,506	9,763,145
<b>Cash and Cash Equivalents - Beginning of year</b>	7,960,170	706,530	827,552	-	1,050,280	10,544,532
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 16,507,722</u>	<u>\$ 745,735</u>	<u>\$ 1,380,434</u>	<u>\$ -</u>	<u>\$ 1,673,786</u>	<u>\$ 20,307,677</u>

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

To the Board of Trustees  
The Ohio University Foundation  
and Subsidiaries  
Athens, OH

We have audited the accompanying consolidated statement of financial position of The Ohio University Foundation, an Ohio not-for-profit corporation, and Subsidiaries (the "Foundation") as of June 30, 2010 and the related consolidated statements of activities and cash flows for the year then ended and have issued our report thereon dated October 15, 2010 (which report expresses an unqualified opinion and includes an emphasis of matter paragraph regarding the valuation of alternative investments). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or 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.



To the Board of Trustees  
The Ohio University Foundation  
Athens, OH

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

This report is intended solely for the information and use of the board of trustees and management of the Foundation and the Auditor of the State of Ohio and is not intended to be, and should not be, used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 15, 2010

**Russ Research Center, LLC**  
(an Ohio limited liability company)

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**Financial Report**  
**June 30, 2010 and 2009**

# Russ Research Center, LLC

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## Independent Auditor's Report

To the Board of Directors  
Russ Research Center, LLC

We have audited the accompanying balance sheet of Russ Research Center, LLC (the "Company"), an Ohio limited liability company, as of June 30, 2010 and 2009 and the related statements of operations, member's equity, and cash flows for the year ended June 30, 2010 and for the period from October 30, 2008 (date of inception) through June 30, 2009. These financial statements are the responsibility of the Company's management. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2010 and 2009 and the results of its operations and cash flows for the year ended June 30, 2010 and for the period from October 30, 2008 (date of inception) through June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010 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, 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 (included in pages 9 and 10 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Plante & Moran, PLLC*

October 5, 2010

# Russ Research Center, LLC

## Balance Sheet

	June 30	
	2010	2009
<b>Assets</b>		
Cash	\$ 1,603,448	\$ 1,050,280
Accounts receivable	24,312	17,367
Property and equipment - Less accumulated depreciation (Note 3)	<u>5,427,411</u>	<u>5,675,804</u>
Total assets	<u><b>\$ 7,055,171</b></u>	<u><b>\$ 6,743,451</b></u>
<b>Liabilities and Member's Equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 238,467	\$ 188,832
Tenant security deposits	45,288	48,088
Distribution payable	<u>700,000</u>	<u>-</u>
Total liabilities	983,755	236,920
<b>Member's Equity</b>	<u>6,071,416</u>	<u>6,506,531</u>
Total liabilities and member's equity	<u><b>\$ 7,055,171</b></u>	<u><b>\$ 6,743,451</b></u>

# Russ Research Center, LLC

## Statement of Operations

	June 30, 2010	Period from October 30, 2008 through June 30, 2009
<b>Revenue</b>		
Rental income	\$ 1,570,991	\$ 1,051,968
Interest income	<u>2,126</u>	<u>3,965</u>
Total revenue	1,573,117	1,055,933
<b>Expenses</b>		
Real estate taxes	101,674	65,253
Security and inspections	28,099	21,465
Repairs and maintenance	369,997	227,857
Utilities	462,471	254,953
Professional fees	26,950	35,273
Administrative expenses	31,021	12,821
Depreciation expense	248,393	124,196
Management fees	<u>39,627</u>	<u>33,171</u>
Total expenses	<u>1,308,232</u>	<u>774,989</u>
<b>Operating Income</b>	264,885	280,944
<b>Nonoperating Revenue</b> - Contribution revenue (Note 4)	<u>-</u>	<u>6,225,587</u>
<b>Net Income</b>	<u><b>\$ 264,885</b></u>	<u><b>\$ 6,506,531</b></u>

# Russ Research Center, LLC

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## Statement of Member's Equity

<b>Balance</b> - October 30, 2008	\$ -
Net income	<u>6,506,531</u>
<b>Balance</b> - June 30, 2009	6,506,531
Net income	264,885
Member distributions	<u>(700,000)</u>
<b>Balance</b> - June 30, 2009	<u><u>\$ 6,071,416</u></u>

# Russ Research Center, LLC

## Statement of Cash Flows

	Year Ended June 30, 2010	Period from October 30, 2008 through June 30, 2009
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 264,885	\$ 6,506,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	248,393	124,196
Contribution revenue	-	(6,225,587)
Changes in assets and liabilities that provided (used) cash		
Accounts receivable	(6,945)	(8,617)
Accounts payable and accrued liabilities	49,635	54,330
Tenant security deposits	(2,800)	-
	<u>553,168</u>	<u>450,853</u>
Net cash provided by operating activities		
	<u>553,168</u>	<u>450,853</u>
<b>Net Increase in Cash</b>	<b>553,168</b>	<b>450,853</b>
<b>Cash - Beginning of period</b>	<b><u>1,050,280</u></b>	<b><u>599,427</u></b>
<b>Cash - End of period</b>	<b><u>\$ 1,603,448</u></b>	<b><u>\$ 1,050,280</u></b>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>



# Russ Research Center, LLC

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## Notes to Financial Statements June 30, 2010 and 2009

### 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. 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. The rental property is located in Dayton, Ohio. Operations of the Company commenced October 30, 2008, and these financial statements reflect the operations of the Company for the year ended June 30, 2010 and for the period from October 30, 2008 to June 30, 2009.

### 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. The Company believes that it mitigates risks by depositing cash with major financial institutions.

**Trade 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. Management considers all accounts receivable collectible; therefore, an allowance for doubtful accounts has not been recorded as of June 30, 2010 and 2009.

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

**Property and Equipment** - Property and equipment 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.

**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, 2010 and 2009.

**Recognition of Revenue** - Rental income is recognized when rent becomes due over the terms of the tenant leases (one year). Rental payments received in advance of the rental income recognition are included in deferred rental income, a liability in the accompanying statement of operations. Late fees are recognized when tenants fail to submit rental payments under the terms of 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.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including October 5, 2010, which is the date the financial statements were available to be issued.

# Russ Research Center, LLC

## Notes to Financial Statements June 30, 2010 and 2009

### Note 3 - Property and Equipment

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

	2010	2009	Depreciable Life - Years
Buildings	\$ 4,967,857	\$ 4,967,857	20 years
Land	832,143	832,143	-
Total property and equipment	5,800,000	5,800,000	
Less accumulated depreciation	372,589	124,196	
Net property and equipment	<u>\$ 5,427,411</u>	<u>\$ 5,675,804</u>	

Depreciation expense totaled \$248,393 and \$124,196 for the year ended June 30, 2010 and for the period ended June 30, 2009, respectively.

### Note 4 - Contribution Revenue

As further disclosed in Note 1, the value of the membership interest donated, which was determined based on the fair value of the cash, accounts receivable, land, and buildings received less the accounts payable and other liabilities assumed at October 30, 2008, totaled \$6,225,587. This amount has been recorded as contribution revenue on the statement of operations for the period from October 30, 2008 through June 30, 2009.

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

To the Board of Directors  
Russ Research Center, LLC  
Athens, OH

We have audited the accompanying financial statements of Russ Research Center, LLC (the "Company"), an Ohio limited liability company, as of and for the year ended June 30, 2010 and for the period from October 30, 2008 through June 30, 2009, and have issued our report thereon dated October 5, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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.

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

To the Board of Directors  
Russ Research Center, LLC

### **Compliance and Other Matters**

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

We noted certain matters that we have reported to management of the Company in a separate letter dated October 5, 2010.

This report is intended solely for the information and use of the board of directors and management of the Company and the auditor of the State of Ohio and is not intended to be, and should not be, used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 5, 2010

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Mary Taylor, CPA  
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  
JANUARY 20, 2011**