The Ohio State University Foundation

Report on Audit of Financial Statements
For the Years ended June 30, 2011 and 2010 and
Report on Internal Controls over Financial Reporting and of Compliance and Other Matters Based on an Audit Performed in Accordance with Government Auditing Standards

Dave Yost • Auditor of State

Board of Directors
The Ohio State University Foundation
364 West Lane Avenue, Suite B
Columbus, Ohio 43201

We have reviewed the *Report of Independent Auditors* of The Ohio State University Foundation, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

January 23, 2011

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statement of net assets and related statement of revenue, expenses and changes in net assets and statement of cash flows present fairly, in all material respects, the financial position of The Ohio State University Foundation (the "Foundation") as of June 30, 2011, and the changes in their financial position and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Foundation as of June 30, 2010 and for the year then ended were audited by other auditors whose report dated November 8, 2010 expressed an unqualified opinion on those statements.

The accompanying management's discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PricewaterhouseCoopers LLP

October 31, 2011

The following Management's Discussion and Analysis ("MD&A") of The Ohio State University Foundation's (the "Foundation") financial performance provides an introduction to the financial statements as of and for the year ended June 30, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

The following sections provide additional details on the Foundation's 2011 financial results and a look ahead at significant economic conditions that are expected to affect the Foundation in the future.

Overview

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

Statements of Net Assets

	2011	2010	2009
Assets			
Current assets	$ 31,046,510	$ 25,692,036	$ 25,386,804
Noncurrent assets	568,200,009	490,271,720	415,628,705
Total assets	$ 599,246,519	$ 515,963,756	$ 441,015,509
Liabilities			
Current liabilities	$ 4,190,445	$ 4,958,370	$ 5,321,429
Noncurrent liabilities	36,640,437	34,772,342	36,428,324
Total liabilities	40,830,882	39,730,712	41,749,753
Net Assets			
Unrestricted	4,250,198	3,486,451	3,607,121
Restricted - expendable	61,427,734	53,957,435	39,728,520
Endowment	492,737,705	418,789,158	355,930,115
Total net assets	558,415,637	476,233,044	399,265,756
Total liabilities and net assets	$ 599,246,519	$ 515,963,756	$ 441,015,509

Assets

Total current assets increased from $26 million at June 30, 2010, to $31 million at June 30, 2011, primarily due to an increase of pledges receivable by $2 million and accounts receivable by $1.5 million.

Total noncurrent assets increased from $490 million at June 30, 2010, to $568 million at June 30, 2011, due primarily to the overall financial market performance of investments of $65 million.

Liabilities
Total current liabilities decreased from $5 million at June 30, 2010 to $4 million at June 30, 2011, primarily due to the payment of a $1 million note payable.

Total noncurrent liabilities increased from $35 million at June 30, 2010, to $37 million at June 30, 2011, which is comparable to prior year.

Net Assets
Net assets increased from $476 million at June 30, 2010 to $558 million at June 30, 2011 as a result of revenue exceeding operating expenses for 2011.

Prior-Year Highlights
Total current assets increased from $25 million at June 30, 2009, to $26 million at June 30, 2010, primarily due to an increase of accounts receivable by $1 million. Total noncurrent assets increased from $416 million at June 30, 2009, to $490 million at June 30, 2010, due primarily to the overall financial market performance of investments of $61 million and an increase of $14 million for pledges receivable. Net assets increased from $399 million at June 30, 2009 to $476 million at June 30, 2010 as a result of revenue exceeding operating expenses.

Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010	2009
Operating revenues	$ 174,504,596	$ 138,790,225	$ (39,365,361)
Operating expenses	92,322,003	61,822,937	51,577,835
Increase(decrease) in net assets	$ 82,182,593	$ 76,967,288	$ (90,943,196)

Operating Revenues
Overall, operating revenues increased from $139 million in 2010 to $175 million in 2011. The primary reason for the increase was the increase in gifts. A detailed analysis of the components of operating revenues follows:

Gifts increased from $83 million in 2010 to $106 million in 2011

Interest and dividends were comparable for 2010 and 2011.

The realized/unrealized gain (loss) represents the adjustment of investments to market value at June 30, 2011. The net adjustment to market was a gain of $34 million in 2010 and a gain of $43 million in 2011, primarily due to market conditions.

The gift annuity reserve adjustment increased from a gain of $1 million in 2010 to a gain of $2 million in 2011 due to income in the current year on gift annuity assets.

The change in the carrying value of remainder trusts decreased $1 million from 2010 to 2011.

Miscellaneous income increased $1 million from 2010 to 2011 due to income from insurance policies.

Operating Expenses
Overall operating expenses increased from $62 million in 2010 to $92 million in 2011. A detailed analysis of the components of operating expenses is as follows:

Distributions to The Ohio State University, not including payments received on accounts receivable and payments toward advances, increased from $54 million in 2010 to $83 million in 2011 due to an increase in gifts passed on to The Ohio State University from the Foundation.

Distributions to gift annuitants represent contractual payments to annuitants and the amount is comparable between June 30, 2010 and June 30, 2011.

Gift annuity remainder distributions are payments to The Ohio State University for the accounts of annuitants passing away during the year. The expenses increased from $1 million in 2010 to $3 million in 2011.

Prior-Year Highlights
The increase in net assets from $(91) million in 2009 to $77 million in 2010 is primarily the result of increased operating revenues and expenses. Operating revenues increased from ($39) million in 2009 to $139 million in 2010 due to investment performance gain of $167 million and $20 million due to increase in gifts. Operating expenses increased from $52 million in 2009 to $62 million in 2010 due to increase in gifts passed on to The Ohio State University from the Foundation.

Statements of Cash Flows

	2011	2010	2009
Operating activities	$ 33,801,932	$ 28,442,669	$ 27,404,520
Investing activities	(31,486,369)	(26,896,306)	(26,915,482)
Financing activities	(905,691)	(820,015)	171,357
Net increase in cash and cash equivalents	1,409,872	726,348	660,395
Cash and cash equivalents, beginning of year	1,554,499	828,151	167,756
Cash and cash equivalents, end of year	$ 2,964,371	$ 1,554,499	$ 828,151

The major positive cash flow item included in operating activities is cash received from contributors totaling $99 million for 2011. The largest negative cash flow item included in operating activities is distributions to The Ohio State University of $83 million for 2011. Total distributions to The Ohio State University include distributions from donors and payments on advances net of cash received on accounts receivable.

Cash used in investing activities represents purchases of investments totaling $38 million for 2011. This is offset by proceeds from sales of investments of $6 million for 2011.

Prior-Year Highlights
Cash flow activities were comparable between 2009 and 2010.

Economic Factors That Will Affect the Future

For only the third time in its one hundred and thirty-five year history, Ohio State is preparing to launch a comprehensive fund raising campaign. Both of its previous campaigns - The “Campaign for Ohio State” (1985-1990) and the “Affirm Thy Friendship” Campaign (1995-2000) - raised unprecedented amounts of money in support of the mission of the University. These campaign efforts also demonstrated the important way that campaigns permanently elevate giving, as in both cases, private support was sustained in post-campaign years.

Although the global economy continues to present challenges for organizations and investors alike, the University is tracking to implement a successful fundraising campaign to provide additional funding for the people and the programs that make the institution such a vital part of the local economy and a leader in education, research and public service. The Foundation leadership is confident that with a clearly identified case for support that is echoed by a cadre of passionate volunteer leaders, and with a team of professional staff able to offer unique ways for donors to meet both University needs and their own financial needs, we will meet the bold goals that the University has set for private support between now and FY16.

Despite the economic challenges facing Ohio and the nation, we remain committed to building upon current efforts to enhance the University's reputation, diversify our revenue base and effectively manage our financial risks. Given that The Ohio State University is one of the most prestigious research universities in the world, we feel the Foundation will maintain its sound financial position while continuing its progress toward the expansion of donor contributions, despite the recent economic downturns.

The Ohio State University Foundation
Statement of Net Assets
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 2,964,371	$ 1,554,499
Pledges receivable - current portion - net	23,514,610	21,326,939
Accounts receivable	4,176,787	2,707,122
Accrued interest receivable	14,656	21,194
Marketable securities	333,038	-
Charitable remainder trusts	-	64,282
Other assets	43,048	18,000
Total current assets	31,046,510	25,692,036
Investments - Long-term		
The Ohio State University Long-Term Investment Pool	484,426,575	410,819,592
Marketable securities	16,516,548	16,837,077
Investment partnerships	565,367	-
Charitable remainder trusts	33,917,464	32,071,693
Life insurance policies	4,609,995	4,014,026
Total investments - long-term	540,035,949	463,742,388
Pledges receivable, net	23,197,326	21,157,505
Capital assets, net	4,308,317	4,535,834
Receivable from The Ohio State University	658,417	835,993
Total	$ 599,246,519	$ 515,963,756
Liabilities and Net Assets		
Current liabilities		
Charitable remainder trust liability	$ 2,223,247	$ 2,053,716
Gift annuity liabilities	1,234,053	1,301,499
Gift annuity reserve	455,524	368,491
Advance from The Ohio State University	181,438	288,722
Accrued liabilities	96,183	40,251
Note payable	-	905,691
Total current liabilities	4,190,445	4,958,370
Deferred revenue	1,337,537	699,789
Charitable remainder trust liability	19,953,576	18,674,448
Gift annuity liabilities	11,081,217	11,834,535
Gift annuity reserve	4,090,386	3,350,685
Advance from The Ohio State University	177,721	212,885
Total liabilities	40,830,882	39,730,712
Net Assets		
Restricted		
Nonexpendable - Endowment	492,737,705	418,789,158
Expendable	61,427,734	53,957,435
Unrestricted	4,250,198	3,486,451
Total net assets	558,415,637	476,233,044
Total liabilities and net assets	$ 599,246,519	$ 515,963,756

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

The Ohio State University Foundation
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Gifts	$106,069,881	$ 82,672,912
Net investment income		
Interest and dividends	22,844,543	21,393,594
Realized/unrealized gain	43,222,614	33,759,433
Gift annuity reserve adjustment	2,158,301	1,111,371
Change in carrying value of remainder trusts	(692,207)	173,800
Total net investment income	67,533,251	56,438,198
Miscellaneous (expense) income	901,464	(320,885)
Total operating revenues	174,504,596	138,790,225
Operating Expenses		
Distributions to The Ohio State University	83,281,077	53,527,071
Distributions to gift annuitants	1,667,627	1,724,270
Gift annuity remainder distributions	3,097,719	1,387,928
Salaries and benefits	1,045,699	1,040,492
Professional services, audit and legal fees	357,631	363,183
Provision for uncollectible pledges	1,087,308	2,064,857
Depreciation	227,517	227,517
Interest on debt	24,898	41,230
Rent and utilities expense	140,770	147,312
Other	1,391,757	1,299,077
Total operating expenses	92,322,003	61,822,937
Increase in net assets	82,182,593	76,967,288
Net assets, beginning of year	476,233,044	399,265,756
Net assets, end of year	$558,415,637	$476,233,044

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

The Ohio State University Foundation
Statements of Cash Flows
June 30, 2011 and 2010

	2011	2010
Operating Activities		
Cash received from contributors	$ 98,854,597	$ 65,837,946
Interest and dividends received	21,661,688	21,419,512
Funding from The Ohio State University	305,495	270,000
Receipt of new gift annuity agreements	1,982,012	425,479
Receipt of new trust agreements	756,452	9,000
Investment income received on gift annuities	1,157,806	(25,918)
Distributions to The Ohio State University	(83,245,949)	(53,476,709)
Income distributions paid to gift annuitants	(1,667,627)	(1,724,270)
Distributions to gift annuity remainderman	(3,097,719)	(1,387,928)
Payments to vendors for supplies and services	(1,859,124)	(1,863,951)
Payments to or on behalf of employees	(1,000,103)	(997,228)
University employee benefit payments	(45,596)	(43,264)
Net cash provided by operating activities	33,801,932	28,442,669
Investing Activities		
Proceeds from sales of investments	6,412,068	5,100,801
Purchases of investments	(37,898,437)	(31,997,107)
Net cash used in investing activities	(31,486,369)	(26,896,306)
Financing Activities		
Payments on note payable	(905,691)	(820,015)
Increase in cash and cash equivalents	1,409,872	726,348
Cash and cash equivalents, beginning of year	1,554,499	828,151
Cash and cash equivalents, end of year	$ 2,964,371	$ 1,554,499
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities		
Increase in net assets	$ 82,182,593	$ 76,967,288
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	227,517	227,517
Realized/unrealized (gain) loss on investments	(43,222,615)	(33,759,432)
Change in cash surrender value of life insurance policies	(595,969)	590,885
Total gifts received in real estate	(1,068,567)	(125,000)
Other	(182,259)	(67,808)
Changes in assets and liabilities		
Pledges receivable	(4,227,492)	(12,544,636)
Accounts receivable	(1,469,665)	(1,432,543)
Deferred revenue	637,748	(667,930)
Accrued interest receivable	(25,048)	-
Other current assets	-	-
Receivable from The Ohio State University	177,576	(214,576)
Advance from The Ohio State University	(142,448)	264,938
Accrued liabilities	55,932	(13,149)
Gift annuities liabilities	(820,764)	(1,744,122)
Gift annuity reserve	826,734	1,126,037
Charitable remainder trust liability	1,448,659	(164,800)
Net cash provided by operating activities	$ 33,801,932	$ 28,442,669

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

1. ACCOUNTING POLICIES

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

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

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

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

- An organization is fiscally dependent on the primary government

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

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Foundation follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

Pledges Receivable
The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. The Foundation reduces pledges receivable to estimated net realizable value by recording an allowance for uncollectible pledges. The allowance is estimated using a four-year rolling average of canceled pledges divided by net pledges receivable. For the years ended June 30, 2011 and 2010, the Foundation recorded an allowance against pledges receivable of $8,229,078 and $7,141,800, respectively.

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

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

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

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

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

In accordance with GASB Statement No. 33, private donations are recognized when all eligibility requirements are met. The Foundation has recorded $46,711,936 and $42,484,444, in pledges receivable, net as of June 30, 2011 and 2010, respectively.

In-Kind Income
The facilities occupied by the Foundation are provided by the University. In addition, the University's Office of University Development and the Office of Financial Services assist the Foundation in fund-raising, gift processing, and accounting. The value of the office space and services provided constitutes additional in-kind income to the Foundation that is not material to the financial statement disclosure.

Investments

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

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

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. For fiscal year 2009, annual distribution was based on the average market value per share of the University Long-Term Investment Pool over the previous five-year period multiplied by a stated rate. For funds established prior to June 30, 2004, the stated rate was 4.5%. For funds established after June 30, 2004, the stated rate was 4%. To minimize volatility in the year-to-year distribution amounts, a "collar" was also in place to ensure that distribution per share did not increase greater than 3% a year or decrease more than 1% a year.

After the significant market decline in fiscal year 2009, the Board of Trustees of the University revised the distribution policy. In fiscal year 2010, the two pools (named funds established before or after the June 30, 2004, cutoff date) were combined into one, resulting in one payout rate for all funds. The collar was eliminated and replaced with a temporary one-year floor limiting the total distribution decline to 3% for any college or area. Based on these two methods, undistributed gains were transferred from the University Long-Term Investment Pool to current funds. These transfer totals were $21,800,000 and $21,200,000 in fiscal years 2011 and 2010, respectively.

Beginning in fiscal year 2011, annual distribution per share is equal 4.25% of the average market value per share of the Long-Term Investment Pool over the most recent seven year period.

At June 30, 2011, the market value of the Foundation's gifted endowments was $484,427,000, which is approximately $57,000,000 below the historical dollar value of $541,427,000. At June 30, 2010, the market value of the Foundation's gifted endowments was approximately $410,820,000, which is $96,179,000 below the historical dollar value of $506,999,000.

The interest in unitrust, annuity trust, and pooled income agreements (marketable securities and charitable remainder trust) are carried at market value. Mutual funds are recorded at share values reported by investment carriers. Bonds and notes are recorded at values determined by market quotations. Realized gains or losses from sale or redemption of investments are based upon the cost of the specific investment sold or redeemed. Purchases and sales of investments are reflected on a trade-date basis.

The Foundation is the owner and beneficiary of certain restricted life insurance policies. Paid up single premium whole life insurance policies are recorded at their net present value, which was calculated using the risk-free interest rate based on last five-year average (approximately 3% at June 30, 2011 and 4% at June 30, 2010). Whole life policies, including both single premium and annual premium policies for which the donors are paying the premiums are recorded at their cash surrender value. The increase in the recorded value during the year is recorded in miscellaneous income.

Real estate is recorded at the appraised value.

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

Capital Assets Net
Capital assets, net of accumulated depreciation, is the residence used by the University president for housing.

Reimbursement Agreement and Resolution
The Foundation and the University entered into an agreement in March 1989 to reimburse costs incurred by the University on behalf of the Foundation and to repay related advances from the University. In connection therewith, the Foundation's Board of Directors approved a resolution in April 1989, authorizing the Foundation to utilize undesignated income earned from unrestricted/restricted funds, as needed, to reimburse the University. On July 7, 2000, the University's Board of Trustees approved a resolution creating a funding plan for University development. Part of this plan includes support to reduce the Foundation's outstanding liability to the University. A reduction of $305,500 was recognized in 2011 and $270,000 was recognized in 2010.

Newly Issued Accounting Pronouncements
In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. This Statement amends existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

Foundation management has not yet determined the impact that implementation of GASB Statements No.59 will have on the Foundation’s financial statements.

2. INVESTMENTS

A substantial portion of investments are held by the University in a pooled arrangement. The Foundation holds certain other investments that related to charitable arrangements. A summary of investments as of June 30, 2011 and 2010 are as follows:

	2011	2010
University investment pool	$ 484,426,575	$ 410,819,592
Investments held by charitable remainder trusts	33,917,464	32,135,975
Marketable securities	16,849,586	16,837,077
Investment partnership	565,367	-
Life insurance policies	4,609,995	4,014,026
Total investments	540,368,987	463,806,670
Less current portion	333,038	64,282
Long term investments	$ 540,035,949	$ 463,742,388

The marketable securities and charitable remainder trust investments $50,767,050 and $48,973,052 at June 30, 2011 and 2010, respectively, consist primarily of various mutual fund investments.

Using the proportioned indirect ownership of investments held by the University in the University Investment Pool and the investments directly owned by the Foundation a summary of the investment mix is as follows at June 30, 2011 and 2010:

	2011	2010
Common stock	$ 65,452,731	$ 68,055,440
Equity mutual funds	40,708,058	29,250,237
U.S. government obligations	6,216,964	5,372,416
U.S. government agency obligations	2,971,282	129,228
Repurchase agreements	7,538,063	217,645
Corporate bonds and notes	22,334,941	17,038,280
Bond mutual funds	19,510,500	47,660,901
International bonds	7,568,293	120,793
Partnership and hedge funds	344,961,580	270,407,772
Real estate	868,640	1,020,827
Cash and cash equivalents	16,340,756	20,519,105
Other	5,897,179	4,014,026
Total	$ 540,368,987	$ 463,806,670

Interest Rate Risk

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

The maturities of the Foundation's interest-bearing investments as of June 30, 2011, were as follows:

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Government Obligations	$ 3,817,623	$ -	$ 1,953,271	$ 1,864,352	$ -
Corporate Bond	277,544	-	-	277,544	-
Bond Mutual Funds	19,510,500	570,156	11,062,740	5,216,061	2,661,543
Total	$ 23,605,668	$ 570,156	$ 13,016,011	$ 7,357,958	$ 2,661,543

The maturities of the Foundation's interest-bearing investments as of June 30, 2010, were as follows:

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Government Obligations	$ 3,968,344	$ 318,343	$ 1,900,366	$ 1,749,634	$ -
Corporate Bond	285,595	-	-	285,595	-
Bond Mutual Funds	21,575,668	635,233	12,289,548	5,751,293	2,899,594
Total	$ 25,829,607	$ 953,576	$ 14,189,914	$ 7,786,522	$ 2,899,594

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information — as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings — provides a current depiction of potential variable cash flows and credit risk.

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

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

The credit ratings of the Foundation's interest-bearing investments as of June 30, 2010, were as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	$ 21,155,437	$ 3,968,344	$ 285,595	$ 16,901,499
Aa	858,929	-	-	858,929
A	1,997,508	-	-	1,997,508
Baa	1,817,733	-	-	1,817,733
Total	$ 25,829,607	$ 3,968,344	$ 285,595	$ 21,575,668

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation's exposure to foreign currency risk as of June 30, 2011, was as follows:

	Equity Mutual Funds
Australian Dollar	$ 403,904
Brazilian Real	228,879
British Pound	969,369
Canadian Dollar	565,465
Chilean Peso	26,927
Chinese Yuan	276,001
Colombian Peso	6,732
Czech Republic - Koruna	6,732
Danish Krone	53,854
EURO	1,400,199
Hong Kong Dollar	127,903
Hungarian Forint	6,732
India - Rupee	121,171
Indonesian Rupiah	40,390
Israeli Shekel	33,659
Japanese Yen	955,905
Malaysian Ringgit	53,854
Mexican Peso	67,317
New Taiwan Dollar	195,220
New Turkish Lira	26,927
New Zealand Dollar	6,732
Norwegian Krone	47,122
Peruvian Nuevo Sol	6,732
Phillippine Peso	6,732
Polish Zloty	26,927
Russia - Rueble	100,976
Singapore Dollar	80,781
South African Rand	114,439
South Korean Won	235,610
Swedish Krona	148,098
Swiss Franc	363,513
Thailand Baht	26,927
	$ 6,731,728

The Foundation's exposure to foreign currency risk as of June 30, 2010 was as follows:

	Equity Mutual Funds
Australian Dollar	$ 288,076
Brazilian Real	187,249
Chilean Peso	19,205
Chinese Yuan	230,461
Colombian Peso	4,801
Czech Republic Koruna	4,801
Danish Krone	38,410
Egyptian Pound	4,801
EURO	1,056,279
Hong Kong Dollar	91,224
Hungarian Forint	4,801
Indian Rupee	100,827
Indonesian Rupiah	28,808
Irish Punt	9,603
Israeli Shekel	33,609
Japanese Yen	835,421
South Korean Won	163,243
Malaysian Ringgit	38,410
Mexican Peso	52,814
New Zealand Dollar	4,801
Norw egian Kroner	24,006
Peruvian Nuevo Sol	9,603
Philippine Peso	4,801
Polish Zloty	14,404
Portuguese Escudo	9,603
Russian Ruble	76,820
Singapore Dollar	62,416
South African Rand	86,423
Sw edish Krona	105,628
Sw iss Franc	288,076
Taiw an Dollar	134,436
Thailand Baht	19,205
New Turkish Lira	19,205
Pound Sterling	748,998
	$ 4,801,268

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

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

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

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

3. GIFT ANNUITIES

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

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

As of June 30, 2011 and 2010, the assets related to these investments had a fair market value of $16,833,700 and $16,821,000, respectively, a present value of annuities payable of $12,315,300 and $13,136,000, respectively and reserves of $4,546,000 and $3,719,000, respectively.

4. UNITRUST, ANNUITY TRUST, AND POOLED INCOME AGREEMENTS

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

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

The Foundation accounts for such agreements by recording the fair market value of assets donated and by recording the present value of the annuity payable, based on the agreement, as a liability. The Foundation had charitable remainder trusts of $33,917,000 and $32,136,000, as of June 30, 2011 and June 30, 2010, respectively.

5. NOTE PAYABLE

In December 2007, Clifton entered into a revolving credit agreement of $2,500,000 with a bank, due on demand and requiring monthly interest payments based on the daily fluctuating London InterBank Offered Rate, plus 2.25%. The note payable is guaranteed by the Foundation and is collateralized by the assets of Clifton and the Foundation. At June 30, 2011, the note which had an outstanding balance of $905,691 as of June 30, 2010, was paid off.

6. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of $359,000 and $502,000 as of June 30, 2011 and 2010, respectively. The Foundation distributed $83,281,000 and $53,527,000, in fiscal years 2011 and 2010, respectively, to the University as directed by donors. The Foundation had receivables from the University of $658,000 and $836,000, as of June 30, 2011 and 2010, respectively.

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

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

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

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

We have audited the financial statements of The Ohio State University Foundation, Columbus Ohio (the "Foundation") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as finding number 2011-1 and 2011-2 that we consider to be significant deficiencies in internal

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control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Foundation in a separate letter dated October 31, 2011.

Foundation's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. We did not audit Foundation's response and, accordingly, we express no opinion on it.

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

PricewaterhouseCoopers LLP

October 31, 2011

2011-1: Gift Revenue Classification Finding

- New/Recurring Issue: New Issue

- *Observation:* While testing the pledge revenue we noticed that a determination occurs to record revenue at either the University or Foundation level depending on the donor's directions. This process requires a significant amount of effort and can be difficult to determine where the revenue should be recorded. Ultimately, upon consolidation all the revenue is recorded at a consolidated University level. At the Foundation level, we used management's policy for recording revenue. During the course of our audit work, additional management testing was required to ascertain the proper amount of revenue to record at the Foundation level. This additional testing resulted in a significant adjustment by management. It should also be noted that this revenue is recorded with a corresponding distribution back to the University. Accordingly, the change in net assets and net assets were unaffected.

- *Implication:* The revenue balance for gifts at the Foundation level can be misstated.

- *Classification* (ie Control Deficiency, Significant Deficiency, Material Weakness)*:* This observation is considered a significant deficiency to the Foundation. The adjustment recorded of approximately $15.8 million is of a size that warrants classification as a significant deficiency.

- *Recommendation:* We recommend that the process for recording pledges between the University and the Foundation be improved and followed on a consistent basis.

  Management Response: This issue will be resolved in FY12. As part of the conversion to BlackBaud, the Foundation's new gift system, a policy change was implemented on July 1, 2011. As of this date, all new gifts will be processed as Foundation gifts. The only remaining issue will be University pledges that still have a balance in FY12 (54 pledges). If material, the pledge payments for these pledges will be reviewed by management to be sure that the revenue is processed under the correct entity. Development will need to provide the formal written policy stating that in FY12 all gifts will be classified as Foundation gifts.

2011-2: Accounts Receivable/Revenue Cut-Off Finding

- New/Recurring Issue: New Issue

- *Observation:* The client identified five pledges, totaling $955,000, relating to fiscal year 2011 that were improperly excluded from fiscal 2011 revenue. These were accepted pledges that due to cutoff matters were not included in the proper period. The process for gift acceptance can take up to several months as a donor and the Development office reviews donor agreements and the nature of the donation. The recording of revenue does not occur until the Development office has accepted the donation.

- *Implication:* By not following effective cutoff procedures, pledge revenue could be misstated between periods.

- *Classification (ie Control Deficiency, Significant Deficiency, Material Weakness):* This observation is classified as a significant deficiency since the donations are readily identified and the recording is a timing difference between periods.

- *Recommendation:* We recommend that the cutoff process for the recording of pledges be improved with closer coordination between the Development office and the Foundation.

Management Response: The resolution of this cut-off issue will be through the Development Office. Signed pledge agreements should be sent to gift processing and entered into the Development system on a timely basis. Additionally, accounting will add a step to the pledge procedures to review all July pledges > $10K before finalizing the pledge workpapers in early August.

Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 2, 2012

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