

# **The Ohio State University Foundation**

**Consolidated Financial Statements  
For the Years ended June 30, 2013 and 2012 and  
Report on Internal Controls over Financial Reporting  
and of Compliance and Other Matters Based on an  
Audit Performed in Accordance with Government  
Auditing Standards**





# Dave Yost • Auditor of State

Board of Directors  
The Ohio State University Foundation  
2040 Blankenship Hall  
901 Woody Hayes Drive  
Columbus, Ohio 43210

We have reviewed the *Independent Auditor's Report* of The Ohio State University Foundation, Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2012 through June 30, 2013. 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.

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

Dave Yost  
Auditor of State

January 2, 2014

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# The Ohio State University Foundation

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June 30, 2013 and 2012

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## Independent Auditor's Report

To the Board of Directors of  
The Ohio State University Foundation:

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

We have audited the accompanying consolidated financial statements of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, which comprise the consolidated statements of net position as of June 30, 2013 and June 30, 2012, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

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



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2013 and June 30, 2012, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2013 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Foundation's internal control over financial reporting and compliance.

*Princeton University Cooper LLP*

October 16, 2013

# **The Ohio State University Foundation Management's Discussion and Analysis (Unaudited) As of and for the Year Ended June 30, 2013**

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The following Management's Discussion and Analysis ("MD&A") of The Ohio State University Foundation's (the "Foundation") financial performance provides an introduction to the financial statements as of and for the year ended June 30, 2013. 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 2013 financial results and a look ahead at significant economic conditions that are expected to affect the Foundation in the future.

## **About The Ohio State University Foundation**

The Foundation is The Ohio State University's (the "University") fundraising and gift-receiving organization. It was founded in 1985 as a non-profit, tax-exempt organization that advances the mission of the University by pursuing and securing private support to benefit the University's students, faculty, programs, and facilities. Buckeye alumni and friends have a generous history, from the first focused campaign at Ohio State that raised approximately \$1 million to help build Ohio Stadium in 1922, to the \$1.23 billion Affirm Thy Friendship campaign that raised more in just five years (1995-2000) than the University had over its previous 123 years. This overwhelming "pay forward" attitude held by alumni and friends helps The Foundation direct critical dollars to the many important causes within the University. On October 4, 2012, the University officially launched the But for Ohio State Campaign, a \$2.5 billion fundraising endeavor that is the largest campaign in the University's history. As of June 2013, more than 400,000 alumni and friends have contributed more than \$1.5 billion to the campaign. The campaign will allow the University to implement visionary new ideas for the student experience and to use its breadth of disciplines to tackle complex global problems related to food production and security, health and wellness, and energy and the environment.

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

## **About the Financial Statements**

The following financial statements include all balances for the Foundation and the consolidated financial results for two legally separate entities, Clifton Holdings, LLC and Pelotonia, LCC ("Pelotonia"), which are subject to the control by the Foundation. The Statement of Net Position is the Foundation's balance sheet. It reflects the Foundation's assets, liabilities, and net position at June 30, 2013, with comparative information as of June 30, 2012. The Statement of Revenue, Expenses, and Changes in Net Position is the Foundation's income statement and reflects its various sources of revenue and categories of expense for the year ended June 30, 2013, with comparative information for Fiscal Year 2012. The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2013, with comparative information for Fiscal Year 2012.



**The Ohio State University Foundation  
Management's Discussion and Analysis (Unaudited)  
As of and for the Year Ended June 30, 2013**

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**Statements of Net Position**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Current assets	\$ 36,508,960	\$ 28,975,272	\$ 31,046,510
Noncurrent assets	<u>715,225,231</u>	<u>605,178,169</u>	<u>568,200,009</u>
Total assets	<u>\$751,734,191</u>	<u>\$634,153,441</u>	<u>\$599,246,519</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,871,177	\$ 3,789,952	\$ 4,190,445
Noncurrent liabilities	<u>36,298,232</u>	<u>35,447,064</u>	<u>36,640,437</u>
Total liabilities	<u>40,169,409</u>	<u>39,237,016</u>	<u>40,830,882</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	3,853,283	4,080,800	4,308,317
Restricted			
Nonexpendable-Endowment	587,507,713	509,065,867	492,737,705
Expendable	120,328,550	81,871,001	61,427,734
Unrestricted	<u>(124,764)</u>	<u>(101,243)</u>	<u>(58,119)</u>
Total net position	<u>711,564,782</u>	<u>594,916,425</u>	<u>558,415,637</u>
Total liabilities and net position	<u>\$751,734,191</u>	<u>\$634,153,441</u>	<u>\$599,246,519</u>

**Assets**

Total current assets increased from \$29 million at June 30, 2012, to \$37 million at June 30, 2013, primarily due to a \$7 million increase in current pledges receivable and a \$1 million increase in receivables due from Pelotonia riders.

Total noncurrent assets increased \$110 million, to \$715 million at June 30, 2013. Foundation investments in the University's Long-Term Investment Pool accounted for \$89 million of this increase, reflecting strong 2013 investment returns and investment of new endowment gifts. In addition, noncurrent pledges receivable increased \$27 million.

**Liabilities**

The Foundation's liabilities consist primarily of charitable remainder trust, gift annuity liabilities and gift annuity reserves. Under these gift arrangements, the Foundation agrees to pay periodic fixed payments to beneficiaries during their lifetimes. The balances associated with these arrangements totaled \$36 million at June 30, 2013 and 2012.

**Net Position**

Net position increased \$117 million, to \$712 million at June 30, 2013, primarily due to \$70 million in net investment income in 2013.

**The Ohio State University Foundation**  
**Management's Discussion and Analysis (Unaudited)**  
**As of and for the Year Ended June 30, 2013**

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**Prior-Year Highlights**

Total current assets decreased from \$31 million at June 30, 2011, to \$29 million at June 30, 2012, primarily due to a decrease of pledges receivable by \$3 million and offset by an increase of accounts receivable by \$2 million. Total noncurrent assets increased from \$568 million at June 30, 2011, to \$605 million at June 30, 2012, due primarily to the overall financial market performance of investments of \$16 million and an increase of \$21 million for pledges receivable. Net position increased from \$558 million at June 30, 2011 to \$595 million at June 30, 2012 as a result of revenue exceeding operating expenses.

**Statements of Revenues, Expenses and Changes in Net Position**

	2013	2012	2011
Operating revenues	\$ 287,539,427	\$ 211,467,149	\$ 186,292,931
Operating expenses	<u>170,891,070</u>	<u>174,966,361</u>	<u>104,110,338</u>
Increase (decrease) in net position	<u>\$ 116,648,357</u>	<u>\$ 36,500,788</u>	<u>\$ 82,182,593</u>

**Operating Revenues**

Overall, operating revenues increased \$76 million to \$288 million in 2013, primarily due to a combination of strong net investment income and increased gift revenues. Additional details are provided below:

- Total gifts increased \$19 million to \$219 million, reflecting increases in new endowment gifts.
- Interest and dividend income increased \$1 million to \$12 million.
- Change in fair value of investments, which includes both realized and unrealized gains and losses, swung from a \$4 million loss in 2012 to a \$58 million gain in 2013, reflecting the changing market conditions. The Long-Term Investment Pool's net investment return for 2013 was 11.63%.
- Miscellaneous income (expense) decreased \$4 million from 2012 to 2013, due to a \$5 million reduction in the valuation of insurance policies, which was partially offset by a \$1 million increase in Pelotonia registration fees.

**Operating Expenses**

Overall operating expenses were relatively stable, declining \$4 million, to \$171 million in 2013. Additional details are provided below:

- Distributions to the University decreased \$9 million, to \$151 million in 2013, reflecting decreases in total receipts for current-use and capital gifts. Non-endowment gifts are transferred to the university upon receipt; new endowment gifts remain in the Foundation.
- Distributions to gift annuitants and gift annuity remainder distributions to the University totaled \$2 million and were stable compared with 2012.
- Provisions for uncollectible pledges increased \$5 million.

**The Ohio State University Foundation  
Management's Discussion and Analysis (Unaudited)  
As of and for the Year Ended June 30, 2013**

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**Prior-Year Highlights**

The decrease in net position from \$82 million in 2011 to \$37 million in 2012 is primarily the result of increased operating revenues and expenses. Operating revenues increased from \$186 million in 2011 to \$211 million in 2012 due to increase in gifts of \$94 million offset by a loss of \$70 million due to investment performance. Operating expenses increased from \$104 million in 2011 to \$175 million in 2012 due to increase in gifts passed on to the University from the Foundation.

**Statements of Cash Flows**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating activities	\$ 30,780,772	\$ 17,628,127	\$ 10,133,912
Investing activities	(30,794,768)	(18,030,128)	(7,818,349)
Financing activities	<u>-</u>	<u>-</u>	<u>(905,691)</u>
Net increase in cash and cash equivalents	(13,996)	(402,001)	1,409,872
Cash and cash equivalents, beginning of year	<u>2,562,370</u>	<u>2,964,371</u>	<u>1,554,499</u>
Cash and cash equivalents, end of year	<u>\$ 2,548,374</u>	<u>\$ 2,562,370</u>	<u>\$ 2,964,371</u>

Total Foundation cash and cash equivalents were stable in 2013. Net cash provided by operating activities increased \$13 million, to \$31 million, reflecting the \$10 million decrease in distributions to the University and small increases in total gift receipts and interest and dividend income. Offsetting the increase in cash provided by operating activities was a \$13 million increase in net purchases of investments.

**Economic outlook**

Americans were hit hard in the economic downturn of 2007-2009, with home values dropping dramatically, private savings losing significant value, and unemployment rising faster than it had in decades. Needless to say, the recession slowed philanthropic giving, especially transformational gifts of \$5 million or more. Though in economic recovery today, a real and perceived financial uncertainty continues to impact philanthropic support for institutions of higher education. The Ohio State University, and therefore Advancement, must make an ever more convincing case for support in an environment of fierce competition for limited charitable donations.

**The Ohio State University Foundation**  
**Consolidated Statements of Net Position**  
**June 30, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,548,374	\$ 2,562,370
Pledges receivable — current portion — net	26,860,589	20,319,344
Accounts receivable	6,905,216	5,774,748
Accrued interest receivable	33,179	13,401
Marketable securities	139,756	214,894
Charitable remainder trusts	-	72,515
Other assets	21,846	18,000
Total current assets	36,508,960	28,975,272
Noncurrent Assets		
The Ohio State University Long-Term Investment Pool	589,702,215	500,824,488
Marketable securities	15,897,008	15,903,070
Investment Partnerships	341,910	478,841
Charitable remainder trusts	32,512,411	32,523,273
Life insurance policies	1,095,093	5,248,431
Real estate	1,008,621	1,008,621
Pledges receivable, net	70,814,690	44,306,992
Capital assets, net	3,853,283	4,080,800
Receivable from The Ohio State University	-	803,653
Total noncurrent assets	715,225,231	605,178,169
Total Assets	\$ 751,734,191	\$ 634,153,441
<b>Liabilities and Net Position</b>		
Current liabilities		
Charitable remainder trust liability	\$ 2,060,486	\$ 1,989,440
Gift annuity liabilities	1,198,939	1,283,743
Gift annuity reserve	389,009	244,211
Advance from The Ohio State University	137,229	124,140
Accrued liabilities	85,514	148,418
Total current liabilities	3,871,177	3,789,952
Noncurrent Liabilities		
Unearned revenue	3,026,165	1,622,223
Charitable remainder trust liability	18,790,698	19,030,830
Gift annuity liabilities	10,933,780	12,280,189
Gift annuity reserve	3,547,589	2,336,101
Advance from The Ohio State University	-	177,721
Total noncurrent Liabilities	36,298,232	35,447,064
Total liabilities	40,169,409	39,237,016
<b>Net Position</b>		
Invested in capital assests, net of related debt	3,853,283	4,080,800
Restricted		
Nonexpendable - Endowment	587,507,713	509,065,867
Expendable	120,328,550	81,871,001
Unrestricted	(124,764)	(101,243)
Total net position	711,564,782	594,916,425
Total liabilities and net position	\$ 751,734,191	\$ 634,153,441

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

**The Ohio State University Foundation**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Position**  
**June 30, 2013 and 2012**

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	2013	2012
<b>Operating Revenues</b>		
Gifts	<u>\$ 218,861,008</u>	<u>\$ 199,861,519</u>
Net investment income		
Interest and dividends	12,310,793	11,266,573
Increase (decrease) in fair value of investments	57,781,451	(3,737,712)
Gift annuity reserve adjustment	1,122,125	1,966,217
Change in carrying value of remainder trusts	<u>205,466</u>	<u>1,166,621</u>
Total net investment income	<u>71,419,835</u>	<u>10,661,699</u>
Miscellaneous income (expense)	<u>(2,741,416)</u>	<u>943,931</u>
Total operating revenues	<u>287,539,427</u>	<u>211,467,149</u>
<b>Operating Expenses</b>		
Distributions to The Ohio State University	151,399,002	160,414,556
Distributions to gift annuitants	1,585,766	1,577,520
Gift annuity remainder distributions	657,378	694,603
Salaries and benefits	1,431,580	1,335,853
Long-Term Investment Pool expense	12,327,483	12,566,427
Profession services, audit and legal fees	259,729	246,640
Provision for uncollectible pledges	1,251,942	(3,791,182)
Depreciation	227,517	227,518
Rent and utilities expense	185,483	186,599
Other	<u>1,565,190</u>	<u>1,507,827</u>
Total operating expenses	<u>170,891,070</u>	<u>174,966,361</u>
Increase in net position	116,648,357	36,500,788
Net position, beginning of year	<u>594,916,425</u>	<u>558,415,637</u>
Net position, end of year	<u>\$ 711,564,782</u>	<u>\$ 594,916,425</u>

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

**The Ohio State University Foundation**  
**Consolidated Statements of Cash Flows**  
**June 30, 2013 and 2012**

	2013	2012
<b>Operating Activities</b>		
Cash received from contributors	\$ 184,641,321	\$ 183,430,960
Interest and dividends received	12,446,911	10,826,799
Funding from The Ohio State University	1,136,970	305,495
Receipt of new gift annuity agreements	1,038,844	1,270,307
Receipt of new trust agreements	36,380	10,068
Investment income received on gift annuities	662,312	464,822
Distributions to The Ohio State University	(151,377,559)	(160,617,090)
Income distributions paid to gift annuitants	(1,585,766)	(1,577,520)
Distributions to gift annuity remainderman	(657,378)	(694,603)
Payments to vendors for supplies and services	(14,400,789)	(14,455,258)
Payments to or on behalf of employees	(1,370,436)	(1,292,037)
University employee benefit payments	(61,144)	(43,816)
Other Receipts	271,106	-
Net cash provided by operating activities	<u>30,780,772</u>	<u>17,628,127</u>
<b>Investing Activities</b>		
Proceeds from sales of investments	41,449,594	38,018,731
Purchases of investments	<u>(72,244,362)</u>	<u>(56,048,859)</u>
Net cash used in investing activities	<u>(30,794,768)</u>	<u>(18,030,128)</u>
Increase (decrease) in cash and cash equivalents	(13,996)	(402,001)
Cash and cash equivalents, beginning of year	<u>2,562,370</u>	<u>2,964,371</u>
Cash and cash equivalents, end of year	<u>\$ 2,548,374</u>	<u>\$ 2,562,370</u>
<b>Reconciliation of Increase in Net Position to Net Cash Provided by Operating Activities</b>		
Increase in net position	\$ 116,648,357	\$ 36,500,788
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities		
Depreciation	227,517	227,517
Increase (decrease) in fair value of investments	(57,781,451)	3,737,932
Change in cash surrender value of life insurance policies	4,153,338	(638,436)
Total gifts received in real estate & partnerships	-	(1,008,621)
Other	-	20,807
Changes in assets and liabilities		
Pledges receivable	(33,048,943)	(17,914,400)
Accounts receivable	(1,130,468)	284,686
Unearned revenue	1,403,942	25,048
Accrued interest receivable	(19,778)	(1,583,406)
Other current assets	(3,846)	-
Receivable from The Ohio State University	803,653	(145,236)
Advance from The Ohio State University	(164,631)	(57,298)
Accrued liabilities	(62,904)	52,235
Gift annuities liabilities	(1,431,213)	1,248,662
Gift annuity reserve	1,356,285	(1,965,598)
Charitable remainder trust liability	<u>(169,086)</u>	<u>(1,156,553)</u>
Net cash provided by operating activities	<u>\$ 30,780,772</u>	<u>\$ 17,628,127</u>

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

# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### 1. ACCOUNTING POLICIES

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

##### **Organization**

The Ohio State University Foundation (the "Foundation") was incorporated as a not-for-profit organization in the State of Ohio on April 19, 1985, and operates for the benefit 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 to own and maintain the University President's residence. Pelotonia, which was created in 2008, organizes annual bicycle tours to raise funds to support cancer research. Both are considered to be "component units", which are legally separate organizations for which the Foundation is financially accountable. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus*, 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

Both Clifton and Pelotonia meet the financial accountability criteria above. In addition, they provide services entirely, or almost entirely, to the Foundation or otherwise exclusively, or almost exclusively, benefit the Foundation. Therefore, the transactions and balances for these organizations have been blended with those of the Foundation.

##### **Basis of Accounting**

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

##### **Cash 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.

At June 30, 2013 the carrying amount of the Foundation's cash and cash equivalents with financial institutions was \$2,319,962 of which \$512,466 is covered by federal deposit insurance. The amount remaining of \$1,807,496 is uncollateralized.

# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **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, 2013 and 2012 the Foundation recorded an allowance against pledges receivable of \$5,018,774 and \$4,437,896, respectively.

#### **Fund Accounting**

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

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

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

- **Restricted - Nonexpendable - Endowment**

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

- **Restricted - Expendable**

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

- **Unrestricted**

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

#### **Gifts**

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



# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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In accordance with GASB Statement No. 33, private donations are recognized when all eligibility requirements are met. The Foundation has recorded \$97,675,279 and \$64,626,336, in pledges receivable, net of allowance for uncollectible pledges, as of June 30, 2013 and 2012, respectively.

#### **In-Kind Income**

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

#### **Investments**

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

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

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is equal 4.25% of the average market value per share of the Long-Term Investment Pool over the most recent seven year period. The undistributed gains were transferred from the University Long-Term Investment Pool to current funds. These transfer totals were \$25,942,143 and \$23,080,758 in fiscal years 2013 and 2012, respectively.

At June 30, 2013, the market value of the Foundation's gifted endowments was \$589,702,215, which is approximately \$53,674,436 below the historical dollar value of \$643,376,651. At June 30, 2012, the market value of the Foundation's gifted endowments was \$500,824,488, which is approximately \$84,456,586 below the historical dollar value of \$585,281,074. Per UPMIFA, (§1715.53(D)(C)) the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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

The Foundation is the owner and beneficiary of certain restricted life insurance policies, including paid up single premium whole life policies and annual premium whole life policies for which the donors are paying the premiums. These policies are reported at their cash surrender values. Changes in cash surrender value are reported as miscellaneous income.

Real estate is recorded at the appraised value.

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

#### **Capital Assets, Net**

The University President's Residence is reported as a capital asset and is shown net of accumulated depreciation at \$3,853,283.

#### **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 \$305,495 was recognized in 2013 and 2012.

#### **Newly Issued Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

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

# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

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loan servicing fees. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

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

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

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 requires mergers, which do not involve an exchange of consideration, to be accounted for using the carrying values of assets. Acquisitions are accounted for using acquisition values. The standard also provides guidance on reporting of disposals of government operations. It is effective for periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*. Statement No. 70 requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. The standard also requires guarantors or issuers to disclose information about the amounts and nature of nonexchange financial guarantees. It is effective for periods beginning after June 15, 2013.

Foundation management is currently assessing the impact that implementation of GASB Statements No. 65, 66, 67, 68, 69 and 70 will have on the Foundation's financial statements.

#### **Out of period adjustment**

During 2013, the Foundation recorded an out of period reduction to revenue of \$3,064,119 related to pledges receivable recorded as of June 30, 2012 that were determined to have been collected prior to that date. This correction relates to pledges originating from 1996 to 2011 and was identified as a result of an improved pledge receivable tracking system which was implemented during the later portion of fiscal 2013. Management does not believe that this out of period error is material to the Consolidated Financial Statements for the year ended June 30, 2013, or to any prior periods.

**The Ohio State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**2. INVESTMENTS**

A substantial portion of the Foundation's investments are held by the University in the Long-Term Investment Pool, a unitized investment pool that also includes gifted University endowments and University operating funds that are internally designated to function as endowments. The Foundation also holds certain other investments that are related to charitable arrangements. A summary of investments as of June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
University Long-Term Investment Pool	\$ 589,702,215	\$ 500,824,488
Investments directly owned by Foundation:		
Investments held by charitable remainder trusts	32,512,411	32,595,788
Marketable securities	16,036,764	16,117,964
Investment partnership	341,910	478,841
Life insurance policies	1,095,093	5,248,431
Real estate	1,008,621	1,008,621
Total investments	<u>640,697,014</u>	<u>556,274,133</u>
Less current portion	<u>139,756</u>	<u>287,409</u>
Total Long-Term Investments	<u>\$ 640,557,258</u>	<u>\$ 555,986,724</u>

The Foundation's directly owned investments consist primarily of various mutual fund investments.

Total Foundation investments by investment type at June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Common stock	\$ 69,237,140	\$ 53,579,670
Equity mutual funds	51,694,378	43,532,553
U.S. Government obligations	7,820,267	5,191,459
U.S. Government agency obligations	12,439,427	2,766,675
Repurchase agreements	1,797,662	10,583,632
Corporate bonds and notes	14,940,430	11,029,007
Bond mutual funds	19,497,062	20,929,977
International mutual funds	2,781,767	5,982,837
Partnership and hedge funds	429,335,243	366,995,366
Real estate	1,994,713	1,950,533
Cash and cash equivalents	27,577,370	27,796,338
Other	<u>1,581,555</u>	<u>5,936,087</u>
Total	<u>\$ 640,697,014</u>	<u>\$ 556,274,134</u>

**The Ohio State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**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. 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. The University's Board of Trustees approved the following thematic asset classes, allocation ranges, and benchmarks for the Long-Term Investment Pool:

<b>Asset Class</b>	<b>Range</b>	<b>Benchmark</b>
Global Equity	10-50%	50% (ACW) + 50% (50% ACWI + 4%)
Global Credit	10-50%	90 Day T-Bill + 4%
Private Capital	10-25%	100% (Cambridge Associates Private Equity Medians)
Real Assets	10-25%	75% (CPI + 4%) + 25% (NACREIF Real Estate Index)

The Long Term Investment Pool is a diversified investment pool designed to produce competitive risk-adjusted returns that will provide real growth over time. Benchmarks are selected to measure the performance of the investments in each asset class considering the goals and expectations for each asset class.

The Global Equity category includes domestic equity, international equity, emerging market equity and long biased long/short managers. The Global Credit category includes fixed income, absolute return and credit oriented managers. The Private Capital category includes private equity and venture capital funds. The Real Assets category includes real estate, natural resource, commodity and infrastructure funds.

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.

**Additional Risk Disclosures for Investments**

Statements Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the custodial, interest-rate, credit and foreign currency risks associated with deposits and investments.

**Custodial credit risk**

Custodial credit risk is the risk that, in the event of the failure of the custodian, University or Foundation investments may not be recovered. It is the policy of the University and the Foundation to hold investments in custodial accounts, and the securities are registered solely in the name of the University or the Foundation, as applicable. All investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation.

**The Ohio State University Foundation**  
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**Interest Rate Risk**

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

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2013, were as follows:

	<b>Investment Maturities (in Years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
U.S. Government Obligations	\$ 3,147,119	\$ 1,267,289	\$ 1,879,830	\$ -	\$ -
Corporate Bond	261,358	-	261,358	-	-
Bond Mutual Funds	19,497,062	587,741	12,925,871	5,390,717	2,733,921
Total	<u>\$ 22,905,539</u>	<u>\$ 1,855,030</u>	<u>\$ 15,067,059</u>	<u>\$ 5,390,717</u>	<u>\$ 2,733,921</u>

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

	<b>Investment Maturities (in Years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
U.S. Government Obligations	\$ 3,853,057	\$ 639,954	\$ 2,586,610	\$ 626,493	\$ -
Corporate Bond	279,496	-	279,496	-	-
Bond Mutual Funds	20,929,976	676,698	10,283,218	6,531,551	3,438,509
Total	<u>\$ 25,062,529</u>	<u>\$ 1,316,652</u>	<u>\$ 13,149,324</u>	<u>\$ 7,158,044</u>	<u>\$ 3,438,509</u>

**Credit Risk**

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

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* ("GASB 40"), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk.

**The Ohio State University Foundation**  
**Notes to Consolidated Financial Statements**  
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The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2013, were as follows:

Credit Rating (S & P)	Total	U.S.		
		Government and Agency Obligations	Corporate Bonds	Bond Mutual Funds
Aaa	\$ 12,475,492	\$ -	\$ 261,358	\$ 12,214,134
Aa	4,237,398	3,147,119	-	1,090,279
A	3,887,456	-	-	3,887,456
Baa	2,193,805	-	-	2,193,805
Ba	111,388	-	-	111,388
Total	<u>\$ 22,905,539</u>	<u>\$ 3,147,119</u>	<u>\$ 261,358</u>	<u>\$ 19,497,062</u>

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

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

**The Ohio State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2013, was as follows:

	<b>Equity Mutual Funds</b>	<b>Bond Mutual Funds</b>
Australian Dollar	\$ 325,769	\$ 13,367
Brazilian Real	151,250	3,732
Pound Sterling	884,230	86,886
Canadian Dollar	424,663	21,873
Chilean Peso	23,269	694
Chinese Yuan	215,240	87
Colombia Peso	5,817	-
Danish Crone	52,356	9,027
EURO	1,111,105	370,631
Hong Kong Dollar	145,433	-
Hungarian Forint	5,817	-
Indian Rupee	98,894	260
Indonesian Rupiah	40,721	2,257
Israeli Shekel	23,269	-
Japanese Yen	959,855	369,155
Malaysian Ringgit	58,173	-
Mexican Peso	63,990	6,857
New Taiwan Dollar	168,702	-
New Zealand Dollar	5,817	(608)
Norwegian Kroner	40,721	-
Peruvian Nuevosol	5,817	-
Philippine Peso	17,452	-
Polish Zloty	17,452	-
Russian Rouble	69,808	-
Singapore Dollar	75,625	-
South Africa Rand	93,077	608
South Korean Won	180,336	-
Swedish Krona	127,981	5,816
Swiss Franc	349,038	-
Thai Baht	40,721	-
Turkish Lira	23,269	-
UAE Dirham	5,817	-
Other	5,817	-
	<u>\$ 5,817,301</u>	<u>\$ 890,642</u>



**The Ohio State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2012 was as follows:

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

# The Ohio State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### 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, 2013 and 2012 the assets related to these investments had a fair market value of \$16,020,904 and \$16,102,104 respectively, a present value of annuities payable of \$12,132,719 and \$13,563,932 respectively and reserves of \$3,936,598 and \$2,580,312, respectively. The assets are recorded as Marketable Securities on the Consolidated Statement of Net Assets.

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

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

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

The Foundation accounts for such agreements by recording the fair market value of assets donated and by recording the present value of the annuity payable, based on the agreement, as a liability. The Foundation had charitable remainder trusts of \$32,512,411 and \$32,595,788 as of June 30, 2013 and June 30, 2012, respectively.

#### 5. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of \$137,230 and \$301,861 as of June 30, 2013 and 2012, respectively. The Foundation distributed \$151,399,002 and \$160,414,556, in fiscal years 2013 and 2012, respectively, to the University as directed by donors. The Foundation had no receivables from the University as of June 30, 2013 and \$803,653 as of June 30, 2012.

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.



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

To the Board of Directors of  
The Ohio State University Foundation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ohio State University Foundation (the "Foundation"), which comprise the statement of net position as June 30, 2013, and the related statement of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2013.

**Internal Control Over Financial Reporting**

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

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

**1. Classification between current and non-current pledges**

- *New/Recurring Issue:* Recurring
- *Observation:* Under governmental accounting standards, the Foundation is required to present a classified statement of net assets. This presentation results in a classification of assets and liabilities into current (one year or less) and long term (greater than one year). During fiscal 2013, management worked with the development office to obtain a report evidencing planned future pledge payment installments.



Upon performing testing over this report, we identified differences between the report's allocations of future payments when compared to underlying pledge agreements, driven by incorrect information in the data-warehouse maintained by the development office. Accordingly, management reviewed the population of all significant pledges and specifically identified the current and long term portion. Management's review of the population lead to a current and long term reclassification adjustment of approximately \$11.2 million (on an absolute dollar value, noting the net impact was only \$2 thousand).

- *Implication:* Management could enhance the efficiency and effectiveness of the process through working with the development office to automate this process.
- *Classification:* Significant Deficiency
- *Recommendation:* We recommend that the use of actual pledge terms be used to determine the classification of pledges consistent with the process management utilized for the 2013 financial statements.

This process could be made more efficient through automation. If development personnel responsible for entering pledge data into The Advancement System performed appropriate review procedures over data entry, the process will be more efficient and effective in the future.

- *Management Response:* In FY14 and going forward Advancement will be adding a quality assurance step to the pledge data entry process to ensure that the payment terms in the signed gift agreement are correctly entered into The Advancement System (TAS). In addition, during FY14 Accounting will perform additional testing on the current / long term portion of the pledge balance report to ensure that the report is consistent with gift agreement documents and is properly classified.

## 2. Pledge Existence

- *New/Recurring Issue:* New
- *Observation:* In fiscal 2013, management identified approximately 10,000 small dollar amount pledges included in the June 30, 2012 pledges receivable balance that were not supportable per records within The Advancement System. Management's testing revealed that \$4.2 million of pledges (\$3.7 million for Foundation) had either been previously collected or cancelled. The erroneous receivables were comprised of numerous individually immaterial pledges and apply to pledges that are up to fifteen years old.

The impact to the financial statements was a \$3 million correction of a prior year error (as a reduction to revenue) in fiscal 2013, with the remaining portion recorded against the allowance for uncollectible pledges in the current year.



- *Implication:* Management and Advancement should work together to validate the existence of pledges receivables to agreements. The error and its correction impact the comparability of results and quality of financial reporting.
- *Classification:* Significant Deficiency
- *Recommendation:* We recommend that management and Advancement coordinate to ensure such an issue does not recur and to validate the pledges currently outstanding.
- *Management Response:* Management identified this issue by comparing Advancement's pledge balance report to Accounting's GASB pledge rollforward. This comparison was not possible under the old Impact system. The TAS conversion presented improved reporting capabilities, including the pledge balance report which was developed during FY13. This report will be used going forward to validate both the existence and balances of all pledges on the pledge rollforward.

*This issue was primarily due to mismatches of "pledge designation" codes on pledge activity reports that are used to rollforward pledge balances. Advancement will investigate options to create a monthly report of pledge designation revisions, which will allow for more timely identification of changes in pledge designation that have an economic impact on gift and pledge accounting.*

Foundation's responses to the findings above were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Foundation in a separate letter dated October 16, 2013.



**Purpose of this Report**

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

Privaathouse Cooper LLP

October 16, 2013



# 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  
JANUARY 14, 2014**