

The Ohio State University Foundation

**A Component Unit of The Ohio State University
Consolidated Financial Statements
Years ended June 30, 2016 and 2015 and Independent
Auditor's Report on Internal Control over Financial
Reporting and on 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, OH 43210-4016

We have reviewed the *Independent Auditor's Report* of The Ohio State University Foundation, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2015 through June 30, 2016. 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

November 17, 2016

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The Ohio State University Foundation

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June 30, 2016 and 2015

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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 consolidated financial statements of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, appearing on pages 8 to 24, which consist of the consolidated statements of net position as of June 30, 2016 and June 30, 2015, the related consolidated statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic 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 an opinion 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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, 2016 and June 30, 2015, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 7 are required by accounting principles generally accepted in the United States of America 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 audits 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 4, 2016 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 for the year ended June 30, 2016. 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.

PricewaterhouseCoopers LLP

October 4, 2016

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2016

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, 2016, with comparative information for the years ended June 30, 2015 and June 30, 2014. 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 2016 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 students, faculty, patients, research, programs, and facilities.

In 2012, the University officially launched the *But for Ohio State Campaign*, the largest fundraising endeavor in Ohio State's history. As of June 2016, more than 727,000 alumni and friends had contributed over \$2.79 billion to the campaign, including more than \$501 million for students, all record totals. The campaign supports the academic mission and vision of the university under several priority areas: placing students first, driving research and innovation, elevating faculty and the academic enterprise, and creating modern learning environments.

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, LLC ("Pelotonia"), which are subject to 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, 2016, with comparative information as of June 30, 2015. The Statement of Revenue, Expenses, and Other 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, 2016, with comparative information for Fiscal Year 2015. The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2016, with comparative information for Fiscal Year 2015.

The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2016

Statements of Net Position

	2016	2015	2014
Cash and cash equivalents	\$ 2,494,541	\$ 3,277,377	\$ 3,684,676
Pledges receivable — current portion — net	35,395,104	29,479,469	24,931,814
Other current assets	<u>10,057,774</u>	<u>8,696,181</u>	<u>14,479,847</u>
Total current assets	47,947,419	41,453,027	43,096,337
The Ohio State University Long-Term Investment Pool	\$ 763,331,888	\$ 757,158,186	\$ 710,961,474
Pledges receivable, net	65,359,935	72,550,008	69,575,800
Other noncurrent assets	<u>53,994,476</u>	<u>51,106,697</u>	<u>52,644,101</u>
Total noncurrent assets	882,686,299	880,814,891	833,181,375
Total assets	\$ 930,633,718	\$ 922,267,918	\$ 876,277,712
Current liabilities	\$ 5,429,433	\$ 2,522,526	\$ 3,702,950
Noncurrent liabilities	<u>45,441,563</u>	<u>41,465,251</u>	<u>38,396,872</u>
Total liabilities	50,870,996	43,987,777	42,099,822
Net investment in capital assets	3,518,380	3,765,591	3,784,071
Restricted			
Nonexpendable-Endowment	744,158,867	714,656,747	662,093,740
Expendable	121,123,712	148,446,965	156,931,244
Unrestricted	<u>10,961,763</u>	<u>11,410,838</u>	<u>11,368,835</u>
Total net position	879,762,722	878,280,141	834,177,890
Total liabilities and net position	\$ 930,633,718	\$ 922,267,918	\$ 876,277,712

Assets

Total current assets increased from \$42 million at June 30, 2015, to \$48 million at June 30, 2016, primarily due to a \$6 million increase in pledges receivable and a \$1 million increase in receivables due from Pelotonia riders.

Total noncurrent assets increased \$2 million, to \$883 million at June 30, 2016. Foundation investments in the University's Long-Term Investment Pool accounted for \$6 million of this increase, primarily due to \$63 million of net principal additions, offset by \$30 million of distributions, \$15 million in expenses for the Pool and \$12 million of net investment losses. In addition, noncurrent pledges receivable decreased \$7 million and real estate increased \$3 million reflecting gifts/purchase of real estate waiting to be sold.

Liabilities

The Foundation's liabilities consist primarily of charitable remainder trusts, 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 \$33 million at June 30, 2016 and \$29 million at June 30, 2015. The \$4 million increase is primarily due to using an updated mortality table that predicts longer life expectancies which results in larger liabilities.

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2016

Net Position

Net position increased \$2 million, to \$880 million at June 30, 2016, primarily due to \$232 million of gifts in 2016, offset by \$197 million of distributions to the University.

Prior-Year Highlights

Total current assets decreased from \$43 million at June 30, 2014, to \$42 million at June 30, 2015, primarily due to a \$7 million decrease in current charitable remainder trusts offset by \$5 million increase in pledges receivable. Total noncurrent assets increased from \$833 million at June 30, 2014, to \$881 million at June 30, 2015, due primarily to strong investment returns and new endowment gifts. Net position increased from \$834 million at June 30, 2014 to \$878 million at June 30, 2015, primarily due to increases in the fair value of endowment investments.

Statements of Revenues, Expenses and Other Changes in Net Position

	2016	2015	2014
Operating revenues			
Gifts	\$ 232,151,865	\$ 222,223,332	\$ 192,266,129
Net Investment income (loss)	(12,441,257)	38,486,945	119,451,381
Other revenue	<u>1,845,520</u>	<u>1,633,215</u>	<u>1,477,843</u>
Total operating revenues	221,556,128	262,343,492	313,195,353
Operating expenses			
Distributions to OSU	197,295,124	189,684,215	171,201,022
Distributions to gift annuitants	1,631,972	1,631,768	1,588,785
Gift annuity remainder distributions	991,810	162,316	581,256
Trust distributions Outside OSU	-	6,017,811	-
Other Expenses	<u>20,154,641</u>	<u>20,745,131</u>	<u>17,211,182</u>
Total operating expenses	220,073,547	218,241,241	190,582,245
Increase in net position	<u>\$ 1,482,581</u>	<u>\$ 44,102,251</u>	<u>\$ 122,613,108</u>

Operating Revenues

Overall, operating revenues decreased \$41 million, to \$221 million in 2016, primarily due to a combination of net investment loss offset by an increase in gift revenues. Additional details are provided below:

- Total gifts increased \$10 million, to \$232 million in 2016. The increase relates to the largest fundraising year at Ohio State. During 2016, over 246,000 alumni and friends made gifts to the University, up from 237,000 in 2015.

Net investment income decreased \$51 million in 2016, yielding a net loss of \$12 million. This includes \$3 million decrease of interest and dividend income with a \$40 million net decrease in the fair value of investments, which includes both realized and unrealized gains and losses. The Long-Term Investment Pool's net investment return for fiscal year ended June 30, 2016 was -3.43% versus the Policy (internal benchmark) return of 0.67%. High volatility in the equity markets continued this year driven by Central Bank activity, concerns on world growth, oil & gas prices and Brexit. Virtually, all endowments experienced negative returns for the year. Real estate was the highest performer for the year with natural resources (oil & gas) being the largest detractor on investment returns.

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2016

Currently, the US equity markets are reaching new highs and the US Treasury markets are at historic low yields. The Long-Term Investment Pool is a diversified pool of assets that is structured to navigate the uncertainty of today's financial markets.

- Other revenues were comparable for 2016 and 2015.

Operating Expenses

Overall operating expenses increased \$2 million, to \$220 million in 2016. Additional details are provided below:

- Distributions to the University increased \$7 million, to \$197 million in 2016, reflecting increases 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 2015.
- The Foundation had no charitable remainder trust distributions to beneficiaries outside the University in 2016 compared to \$6 million in 2015. 12% of the charitable remainder trusts held by the Foundation have remainder interest outside the University.
- Other expenses decreased \$1 million, to \$20 million in 2016, reflecting increases in salaries and benefits of \$1 million and a decrease in provisions for uncollectible pledges of \$2 million.

Prior-Year Highlights

Foundation net position increased \$44 million in 2015. Operating revenues decreased \$51 million, to \$262 million with increases in gift revenues partially offsetting an \$81 million decrease in net investment income. Operating expenses increased \$28 million, to \$218 million, reflecting increases in gift distributions to the University.

Statements of Cash Flows

	2016	2015	2014
Operating activities	\$ 34,685,756	\$ 24,976,097	\$ 27,612,542
Investing activities	(35,468,592)	(25,383,396)	(26,476,240)
Financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(782,836)	(407,299)	1,136,302
Cash and cash equivalents, beginning of year	3,277,377	3,684,676	2,548,374
Cash and cash equivalents, end of year	\$ 2,494,541	\$ 3,277,377	\$ 3,684,676

Total Foundation cash and cash equivalents decreased \$783,000 in 2016. Net cash provided by operating activities increased \$10 million to \$35 million, reflecting the \$11 million increase in total gift receipts with a decrease in interest and dividend income of \$1 million.

Current Environment

In 2016, 245,653 donors gave \$232 million in cash support to the University, both are records, and an increase of nearly 8% in cash over the previous year.

**The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2016**

Increased student support is part of President Michael V. Drake's 2020 Vision for the University, which would grow the need-based grant pool by \$100 million over five years. During his State of the University Address in January 2016, Drake said the University would direct \$20 million in grants to approximately 15,700 undergraduates next year as part of the President's Affordability Grant program – bringing the initiative's total grant funding over two years to \$35 million.

The Ohio State University Foundation
Consolidated Statements of Net Position
As of June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 2,494,541	\$ 3,277,377
Pledges receivable — current portion — net	35,395,104	29,479,469
Accounts receivable	9,878,503	8,368,834
Accrued interest receivable	22,587	22,372
Marketable securities	40,014	254,417
Other assets	116,670	50,558
Total current assets	<u>47,947,419</u>	<u>41,453,027</u>
Noncurrent Assets		
The Ohio State University Long-Term Investment Pool	763,331,888	757,158,186
Marketable securities	17,871,203	17,277,115
Investment Partnerships	241,100	264,679
Charitable remainder trusts	27,166,892	27,321,808
Life insurance policies	1,313,280	1,285,904
Real estate	3,883,621	1,191,601
Pledges receivable, net	65,359,935	72,550,008
Capital assets, net	3,518,380	3,765,590
Total noncurrent assets	<u>882,686,299</u>	<u>880,814,891</u>
Total Assets	<u>\$ 930,633,718</u>	<u>\$ 922,267,918</u>
Liabilities and Net Position		
Current liabilities		
Charitable remainder trust liability	\$ 1,780,187	\$ 1,273,015
Gift annuity liabilities	1,896,927	964,903
Advance from The Ohio State University	1,547,664	155,509
Accrued liabilities	204,655	129,099
Total current liabilities	<u>5,429,433</u>	<u>2,522,526</u>
Noncurrent Liabilities		
Unearned revenue	16,263,529	15,176,602
Charitable remainder trust liability	13,258,722	13,956,745
Gift annuity liabilities	14,128,190	10,578,751
Gift annuity reserve	1,791,122	1,753,153
Total noncurrent Liabilities	<u>45,441,563</u>	<u>41,465,251</u>
Total liabilities	<u>50,870,996</u>	<u>43,987,777</u>
Net Position		
Net investment in capital assets	3,518,380	3,765,591
Restricted		
Nonexpendable - Endowment	744,158,867	714,656,747
Expendable	121,123,712	148,446,965
Unrestricted	10,961,763	11,410,838
Total net position	<u>879,762,722</u>	<u>878,280,141</u>
Total liabilities and net position	<u>\$ 930,633,718</u>	<u>\$ 922,267,918</u>

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

The Ohio State University Foundation
Consolidated Statements of Revenues, Expenses and Other Changes in Net
Position
For the years ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Gifts	<u>\$ 232,151,865</u>	<u>\$ 222,223,332</u>
Net investment income		
Interest and dividends	15,232,329	18,489,558
Increase (decrease) in fair value of investments	(27,679,249)	12,045,909
Gift annuity reserve adjustment	(2,036,959)	850,893
Change in carrying value of remainder trusts	<u>2,042,622</u>	<u>7,100,585</u>
Total net investment income (loss)	<u>(12,441,257)</u>	<u>38,486,945</u>
Miscellaneous income	<u>1,845,520</u>	<u>1,633,215</u>
Total operating revenues	<u>221,556,128</u>	<u>262,343,492</u>
Operating Expenses		
Distributions to The Ohio State University	197,295,124	189,684,215
Distributions to gift annuitants	1,631,972	1,631,768
Gift annuity remainder distributions	991,810	162,316
Trust distribution outside The Ohio State University	-	6,017,811
Salaries and benefits	2,161,496	1,380,935
Long-Term Investment Pool expenses	15,352,903	15,260,272
Profession services, audit and legal fees	421,235	428,008
Provision for uncollectible pledges	(637,533)	1,270,398
Depreciation	247,210	242,287
Rent and utilities expense	266,568	236,974
Other	<u>2,342,762</u>	<u>1,926,257</u>
Total operating expenses	<u>220,073,547</u>	<u>218,241,241</u>
Increase in net position	1,482,581	44,102,251
Net position, beginning of year	<u>878,280,141</u>	<u>834,177,890</u>
Net position, end of year	<u>\$ 879,762,722</u>	<u>\$ 878,280,141</u>

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

The Ohio State University Foundation
Consolidated Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Cash received from contributors	\$ 232,363,525	\$ 220,893,862
Interest and dividends received	14,725,331	15,680,157
Funding from The Ohio State University	320,000	320,000
Receipt of new gift annuity agreements	2,541,711	525,520
Receipt of new trust agreements	1,851,770	340,079
Investment income received on gift annuities	506,783	2,809,599
Distributions to The Ohio State University	(197,354,361)	(189,689,164)
Income distributions paid to gift annuitants	(1,631,972)	(1,631,768)
Distributions to gift annuity remainderman	(991,810)	(162,316)
Trust distribution outside The Ohio State University	-	(6,017,811)
Payments to vendors for supplies and services	(18,307,912)	(17,916,673)
Payments to or on behalf of employees	(2,126,754)	(1,323,308)
University employee benefit payments	(34,742)	(57,627)
Advance from The Ohio State University	1,392,155	(2,471)
Other receipts	1,432,032	1,208,018
Net cash provided by operating activities	<u>34,685,756</u>	<u>24,976,097</u>
Investing Activities		
Proceeds from sales of investments	48,534,918	52,945,415
Purchases of investments	(84,003,510)	(78,105,005)
Payment for capital assets	-	(223,806)
Net cash used in investing activities	<u>(35,468,592)</u>	<u>(25,383,396)</u>
Increase (decrease) in cash and cash equivalents	(782,836)	(407,299)
Cash and cash equivalents, beginning of year	3,277,377	3,684,676
Cash and cash equivalents, end of year	<u>\$ 2,494,541</u>	<u>\$ 3,277,377</u>
Reconciliation of Increase in Net Position to Net Cash		
Provided by Operating Activities		
Increase in net position	\$ 1,482,581	\$ 44,102,251
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities		
Depreciation	247,210	242,287
Decrease (Increase) in fair value of investments	27,679,249	(12,045,909)
Change in cash surrender value of life insurance policies	(27,376)	(100,303)
Total gifts received in real estate & partnerships	(1,277,569)	(665,000)
Pledge allowance	(637,533)	1,270,398
Changes in assets and liabilities		
Pledges receivable	1,911,971	(8,792,261)
Accounts receivable	(1,509,669)	(918,625)
Unearned revenue	1,086,927	9,046,416
Accrued interest receivable	(215)	198
Other current assets	(66,112)	(4,894)
Advance from The Ohio State University	1,392,155	(2,471)
Accrued liabilities	75,556	(65,162)
Gift annuities liabilities	4,481,463	(239,457)
Gift annuity reserve	37,969	(90,865)
Charitable remainder trust liability	(190,851)	(6,760,506)
Net cash provided by operating activities	<u>\$ 34,685,756</u>	<u>\$ 24,976,097</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, 2016 and 2015

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 Foundation is the single member of two LLC's, 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. These LLC's are included with the Foundation's consolidated financial statements in a blended presentation.

The Foundation, as a component unit of the University, is included in the University's consolidated financial statements in a blended presentation.

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 Governmental Accounting Standards Board ("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 to be cash equivalents except for the money market funds held as part of the gift annuities and charitable remainder trusts agreements at the date of purchase. All cash is principally on deposit with two banks.

At June 30, 2016, the carrying amount of the Foundation's cash and cash equivalents with financial institutions was \$2,494,541, of which \$693,929 is covered by federal deposit insurance. The amount remaining of \$1,800,611 is uncollateralized.

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. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising. For the years ended June 30, 2016 and 2015 the Foundation recorded an allowance against pledges receivable of \$4,616,226 and \$5,253,759 respectively.

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 Foundation's financial resources are classified for accounting and reporting purposes into the following four net position categories:

- **Net investment in capital assets**

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**

Amounts subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the University. These assets primarily consist of the Foundation's permanent endowments.

- **Restricted - Expendable**

Amounts whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**

Amounts which are not subject to externally-imposed stipulations.

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 pledges receivable, net of allowances, of \$100,755,039 and \$102,029,477 as of June 30, 2016 and 2015, 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, but is not reported in the Foundation's financial statements.

The Ohio State University Foundation

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Investments

All 2,505 Board-established named Foundation endowments and 309 Foundation pending funds are invested in The Ohio State University Long-Term Investment Pool ("University Long-Term Investment Pool"). Each named fund is assigned a number of shares in the University Long-Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. 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. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the University Long-Term Investment Pool, and the associated net position is classified as restricted- expendable unless otherwise restricted by the donor. The depreciation on non-expendable endowment funds is recorded as a reduction to restricted non-expendable net position. Recovery on these funds is recorded as an increase in restricted non-expendable up to the historical value of each fund. 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. 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 4.25% of the average market value per share of the University Long-Term Investment Pool over the most recent seven year period. The annual distributions were transferred from the University Long-Term Investment Pool to current restricted endowment distribution funds. These transfer totals were \$30,008,699 and \$28,705,174 in fiscal years 2016 and 2015, respectively.

At June 30, 2016, the market value of the Foundation's gifted endowments was \$763,331,888, which is approximately \$53,580,760 below the historical dollar value of \$816,912,648. At June 30, 2016, there were 2,107 named funds underwater. The market value of these underwater funds at June 30, 2016 was \$547,608,510, which was \$69,285,280 below the historical dollar value of \$616,893,790. At June 30, 2015, the market value of the Foundation's gifted endowments was \$757,158,186, which is approximately \$3,275,322 above the historical dollar value of \$753,882,865. Although the market value of the Foundation's gifted endowments in total exceeds the historical cost at June 30, 2015, there were 1,125 named funds underwater. The market value of these underwater funds at June 30, 2015 was \$316,606,863, which was \$35,918,796 below the historical dollar value of \$352,525,659.

The interests in unitrust, annuity trust, and pooled income agreements (marketable securities and charitable remainder trusts) 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 Ohio State University Foundation

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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 at the date of the gift. These assets totaled \$3,883,621 and \$1,191,601 at June 30, 2016 and 2015, respectively.

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. The net book value of the residence was \$3,518,380 and \$3,765,590 at June 30, 2016 and 2015, respectively.

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 \$320,000 was recognized in 2016 and 2015.

Newly Issued Accounting Pronouncements

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These criteria were formerly based on SEC regulations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (FY2016), except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015 (FY2017). The provisions effective in FY2016 did not have any impact on Foundation investment reporting.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This standard expands the blending criteria in Statement 14 to require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the

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death of the lead beneficiary). The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

Foundation management is currently assessing the impact that implementations of GASB Statements 79, 80 and 81 will have on the Foundation's financial statements.

2. INVESTMENTS

A substantial portion of the Foundation's investments are held by the University in the University 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, 2016 and 2015 are as follows:

	2016	2015
University Long-Term Investment Pool	\$ 763,331,888	\$ 757,158,186
Investments directly owned by Foundation:		
Investments held by charitable remainder trusts	27,166,892	27,321,808
Marketable securities	17,911,217	17,531,532
Investment partnership	241,100	264,679
Life insurance policies	1,313,280	1,285,904
Real estate	3,883,621	1,191,601
Total investments	<u>813,847,998</u>	<u>804,753,710</u>
Less current portion	<u>40,014</u>	<u>254,417</u>
Total Long-Term Investments	<u>\$ 813,807,984</u>	<u>\$ 804,499,293</u>

The Foundation's directly owned investments by investment type at June 30, 2016 and 2015 are as follows:

	2016	2015
Equity mutual funds	\$ 22,974,123	\$ 24,053,698
U.S. government obligations	2,745,174	1,811,580
Corporate bonds	214,157	231,306
Bond mutual funds	16,692,476	15,856,582
Private Equity	225,240	248,819
Real assets	5,292,919	2,707,980
Cash and cash equivalents	1,058,741	1,399,655
Other	<u>1,313,280</u>	<u>1,285,904</u>
Total	<u>\$ 50,516,110</u>	<u>\$ 47,595,524</u>

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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 quasi endowment 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 University Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equities	40-80%	MSCI All Country World Index (ACWI)
Global Credit	10-50%	Barclays U.S. Aggregate Bond Index
Real Assets	5-20%	U.S. Consumer Price Index (CPI) +5%

The University Long Term Investment Pool is 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 Equities category includes domestic equity, international equity, emerging market equity, hedged funds and private equity. The Global Credit category includes global fixed income and relative value/macro, credit oriented managers and private credit. The Real Assets category includes real estate, and infrastructure funds.

Information on Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- *Level 1* – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include directly held equity securities, registered bonds, registered equity mutual funds and money market funds.
- *Level 2* – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed income securities that are valued using market information.

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- *Level 3* – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include real estate and other assets.
- *Net Asset Value (NAV)* – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Alternative investments with an NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV included hedge funds, private equity investments.
- *Not Leveled* – Cash is not measured at fair value and, thus, is not subject to the fair value disclosure requirements.

The Fair Value of the Foundation's directly owned investments by category as of June 30, 2016, were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 22,974,123	\$ -	\$ -	\$ -	\$ 22,974,123
US government obligations		2,745,174	-	-	2,745,174
Corporate bonds	-	214,157	-	-	214,157
Bond mutual funds	16,692,476	-	-	-	16,692,476
Private equity	-	-	-	225,240	225,240
Real assets	1,393,438	-	3,883,621	15,860	5,292,919
Cash equivalents	1,058,741	-	-	-	1,058,741
Other	-	-	1,313,280	-	1,313,280
Total	<u>\$ 42,118,778</u>	<u>\$ 2,959,331</u>	<u>\$ 5,196,901</u>	<u>\$ 241,100</u>	<u>\$ 50,516,110</u>

The Ohio State University Foundation

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The Fair Value of the Foundation's directly owned investments by category as of June 30, 2015, were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 24,053,698	\$ -	\$ -	\$ -	\$ 24,053,698
US government obligations		1,811,580	-	-	1,811,580
Corporate bonds	-	231,306	-	-	231,306
Bond mutual funds	15,856,582	-	-	-	15,856,582
Private equity	-	-	-	248,819	248,819
Real assets	1,500,519	-	1,191,601	15,860	2,707,980
Cash equivalents	1,399,655	-	-	-	1,399,655
Other	-	-	1,285,904	-	1,285,904
Total	\$ 42,810,454	\$ 2,042,886	\$ 2,477,505	\$ 264,679	\$ 47,595,524

Additional Information on Investments Measured at the NAV

Additional information on fair values, unfunded commitments, remaining life and redemption for investments measured at the NAV for the Foundation's directly owned interest-bearing investments as of June 30, 2016 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Private equity	\$ 225,240	\$ -	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets	15,860	-	No limit	30 to 90 day notice periods	
	<u>\$ 241,100</u>	<u>\$ -</u>			

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.

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.

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The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2016, 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	\$ 2,745,174	\$ 2,152,625	\$ 592,549	\$ -	\$ -
Corporate bonds	214,157	-	214,157	-	-
Bond mutual funds	16,692,476	892,239	9,005,737	4,823,221	1,971,279
Total	<u>\$ 19,651,807</u>	<u>\$ 3,044,864</u>	<u>\$ 9,812,443</u>	<u>\$ 4,823,221</u>	<u>\$ 1,971,279</u>

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2015, 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	\$ 1,811,580	\$ -	\$ 1,811,580	\$ -	\$ -
Corporate bonds	231,306	-	231,306	-	-
Bond mutual funds	15,856,582	1,969,474	7,091,105	4,819,745	1,976,258
Total	<u>\$ 17,899,468</u>	<u>\$ 1,969,474</u>	<u>\$ 9,133,991</u>	<u>\$ 4,819,745</u>	<u>\$ 1,976,258</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.

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The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2016, were as follows:

Credit Rating (S & P)	Total	U.S. Government Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 9,806,522	\$ -	\$ 214,157	\$ 9,592,365
AA	4,026,411	2,745,174	-	1,281,237
A	2,902,566	-	-	2,902,566
BBB	2,570,407			2,570,407
BB	119,360			119,360
B	30,395			30,395
C	74,951			74,951
Not rated	121,195	-	-	121,195
Total	\$ 19,651,807	\$ 2,745,174	\$ 214,157	\$ 16,692,476

The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2015, were as follows:

Credit Rating (S & P)	Total	U.S. Government Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 8,559,082	\$ -	\$ 231,306	\$ 8,327,776
AA	2,858,059	1,811,580	-	1,046,479
A	4,240,868	-	-	4,240,868
BBB	2,125,704			2,125,704
BB	50,328			50,328
Not rated	65,427	-	-	65,427
Total	\$ 17,899,468	\$ 1,811,580	\$ 231,306	\$ 15,856,582

The Ohio State University Foundation
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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, 2016, was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 167,161	\$ (2,637)
Brazilian Real	45,939	16,800
Canadian Dollar	218,138	3,482
Cayman Islands Dollar	9	-
Chilean Peso	9,774	-
Chinese Yuan	5,316	(15,616)
Colombia Peso	3,992	-
Czech Koruna	58	-
Danish Krone	44,798	(147)
Egyptian Pound	3,141	-
EURO	652,301	(25,384)
Great Britain Pound Sterling	440,376	(16,154)
Hong Kong Dollar	219,799	1,031
Hungarian Forint	3,199	-
Iceland Krona	-	158
Indian Rupee	75,235	147
Indonesian Rupiah	16,523	295
Israeli Shekel	15,926	-
Japanese Yen	558,495	(3,094)
Malaysian Ringgit	26,160	-
Mexican Peso	29,642	8,297
New Taiwan Dollar	94,595	(13,406)
New Zealand Dollar	9,474	1,343
Norwegian Krone	16,132	622
Peruvian Nuevosol	88	-
Philippine Peso	13,031	-
Polish Zloty	6,662	-
Russian Rouble	555	8,397
Singapore Dollar	35,132	(26,960)
South Korean Won	110,125	(737)
Sri Lanka - Rupee	52,301	147
Swedish Krona	67,466	12,375
Swiss Franc	197,970	(12,228)
Thai Baht	19,489	-
Turkish Lira	9,861	-
UAE Dirham	6,224	-
	<u>\$ 3,175,087</u>	<u>\$ (63,269)</u>

The Ohio State University Foundation
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The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2015 was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 272,628	\$ (17,602)
Brazilian Real	90,876	(15,749)
Canadian Dollar	374,863	309
Chilean Peso	17,039	-
Chinese Yuan	295,347	(1,081)
Colombia Peso	5,680	-
Danish Krone	68,157	(309)
Egyptian Pound	5,680	-
EURO	1,158,668	(18,374)
Great Britain Pound Sterling	834,923	2,625
Hong Kong Dollar	153,353	926
Indian Rupee	124,954	16,830
Indonesian Rupiah	28,399	-
Israeli Shekel	28,399	-
Japanese Yen	982,596	3,860
Malaysian Ringgit	45,438	463
Mexican Peso	51,118	309
New Taiwan Dollar	170,392	(309)
New Zealand Dollar	11,359	(11,889)
Norwegian Kroner	28,399	-
Philippine Peso	22,719	-
Polish Zloty	17,039	(1,390)
Russian Rouble	45,438	(154)
Singapore Dollar	62,477	(8,492)
South Africa Rand	90,876	(618)
South Korean Won	176,072	154
Swedish Krona	119,275	463
Swiss Franc	340,785	(463)
Thai Baht	28,399	-
Turkish Lira	17,039	309
UAE Dirham	11,359	-
	<u>\$ 5,679,746</u>	<u>\$ (50,182)</u>

The Ohio State University Foundation
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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 present value calculation is based on a combination of the agreed-upon payout rate, actuarial assumptions on mortality rates with a 1.8% discount rate as of June 30, 2016. For 2016 an improvement scale was used that predicts longer life expectancies, resulting in larger liabilities. The balance of the gift is recorded as a reserve for future payments.

As of June 30, 2016 and 2015 the assets related to these investments had a fair market value of \$17,911,217 and \$17,515,672 respectively, a present value of annuities payable of \$16,025,117 and \$11,543,654 respectively and reserves of \$1,791,122 and \$1,753,153 respectively. The assets are recorded as Marketable Securities on the Consolidated Statements of Net Position.

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 ("charitable remainder trusts"), 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 fair market value for charitable remainder trusts of \$27,166,892 and \$27,321,808 as of June 30, 2016 and June 30, 2015, respectively and a present value of annuities payable of \$15,038,909 and \$15,229,760 respectively.

5. OTHER LIABILITIES

Other liability activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 15,176,602	\$ 6,066,335	\$ 4,979,408	\$ 16,263,529	\$ -
Charitable remainder trust liability	15,229,760	1,058,968	1,249,819	15,038,909	1,780,187
Gift annuity liabilities	11,543,654	4,961,656	480,193	16,025,117	1,896,927
Gift annuity reserve	1,753,153	1,299,613	1,261,644	1,791,122	-
	<u>\$ 43,703,169</u>	<u>\$ 13,386,571</u>	<u>\$ 7,971,064</u>	<u>\$ 49,118,676</u>	<u>\$ 3,677,114</u>

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Other liability activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 6,130,186	\$ 10,549,202	\$ 1,502,786	\$ 15,176,602	\$ -
Charitable remainder trust liability	21,990,266	194,889	6,955,395	15,229,760	1,273,015
Gift annuity liabilities	11,783,111	295,100	534,557	11,543,654	964,903
Gift annuity reserve	1,844,018	671,632	762,497	1,753,153	-
	<u>\$ 41,747,581</u>	<u>\$ 11,710,823</u>	<u>\$ 9,755,235</u>	<u>\$ 43,703,169</u>	<u>\$ 2,237,918</u>

6. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of \$1,547,664 and \$155,509 as of June 30, 2016 and 2015, respectively. The Foundation distributed \$197,295,124 and \$189,684,215, in fiscal years 2016 and 2015, respectively, to the University as directed by donors. The Foundation had no receivables from the University as of June 30, 2016 and June 30, 2015.

As noted previously, 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 as well as allocation of expenses 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 consolidated financial statements of The Ohio State University Foundation (the “Foundation”), a component unit of The Ohio State University, as of and for the year ended June 30, 2016, which consist of the consolidated statement of net position as of June 30, 2016, and the related statements of revenues, expenses and other changes in net position and of cash flows and related notes to the financial statements, which collectively comprise the Foundation’s basic financial statements and have issued our report thereon dated October 4, 2016.

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 Foundation’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 4, 2016

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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
NOVEMBER 29, 2016