

THE UNIVERSITY OF CINCINNATI FOUNDATION

Financial Statements and Supplementary Schedules

June 30, 2004 and 2003 with Report of Independent Auditors





**Auditor of State  
Betty Montgomery**

Board of Trustees  
University of Cincinnati Foundation  
PO Box 19970  
Cincinnati, Ohio 45219-0970

We have reviewed the Independent Auditor's Report of the University of Cincinnati Foundation, Hamilton County, prepared by Ernst & Young LLP, for the audit period July 1, 2003 to June 30, 2004. 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 University of Cincinnati Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 8, 2004

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The University of Cincinnati Foundation  
Financial Statements and Supplementary Schedules

June 30, 2004 and 2003

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## Report of Independent Auditors

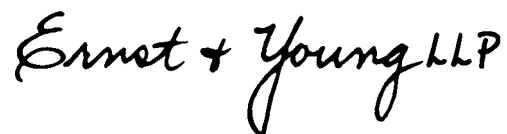
The Board of Trustees  
The University of Cincinnati Foundation

We have audited the statements of financial position of The University of Cincinnati Foundation (the Foundation) as of June 30, 2004 and 2003, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2004 and 2003, and the statements of activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



August 26, 2004

The University of Cincinnati Foundation

Statements of Financial Position

|   | June 30               |                       |
|---|-----------------------|-----------------------|
|   | 2004                  | 2003                  |
| <b>Assets</b>   |                       |                       |
| Cash  | \$ 5,346,463          | \$ 4,330,792          |
| Due from University of Cincinnati   | 2,432,787             | 2,294,554             |
| Accrued interest receivable   | 618,767               | 667,734               |
| Stock proceeds receivable   | 443,564               | 13,134                |
| Prepaid expenses  | 138,230               | 133,736               |
| Pledges receivable, net of allowance (Note 5)   | 56,703,454            | 46,036,234            |
| Cash surrender value of life insurance policies (Note 6)  | 988,041               | 828,993               |
| Other   | 6,637                 | 19,272                |
| Investments, at fair value (Note 7):  |                       |                       |
| Cash equivalents  | 3,939,411             | 6,235,791             |
| Mutual funds  | 75,895,892            | 61,971,638            |
| Corporate stocks  | 62,315,509            | 50,956,852            |
| U.S. Government and agency obligations  | 8,730,310             | 6,764,372             |
| Corporate bonds   | 13,013,088            | 14,422,924            |
| Municipal obligations   | 137,841               | 185,035               |
| Real estate and community development   | 13,736,002            | 10,592,966            |
| Total investments   | <u>177,768,053</u>    | <u>151,129,578</u>    |
| Investment property, net of accumulated depreciation of<br>\$947,000 in 2004 and \$888,000 in 2003          | 286,447               | 345,285               |
| Property and equipment:   |                       |                       |
| Leasehold improvements, net of accumulated amortization<br>of \$235,000 in 2004 and \$180,000 in 2003       | 275,280               | 325,616               |
| Equipment and automobile, net of accumulated depreciation<br>of \$1,290,000 in 2004 and \$1,231,000 in 2003 | 567,962               | 716,779               |
| Total assets  | <u>\$ 245,575,685</u> | <u>\$ 206,841,707</u> |
| <b>Liabilities and net assets</b>   |                       |                       |
| Liabilities:  |                       |                       |
| Accounts payable  | \$ 871,686            | \$ 846,274            |
| Accrued liabilities   | 84,644                | 160,506               |
| Accrued compensated absences  | 247,876               | 232,184               |
| Agency payable (Note 2)   | 961,386               | 783,878               |
| Refundable deposits   | 718,262               | 645,864               |
| Due to University of Cincinnati (Note 10)   | 239,778               | 359,667               |
| Present value of annuities payable (Note 14)  | 8,337,826             | 7,847,339             |
| Total liabilities   | <u>11,461,458</u>     | <u>10,875,712</u>     |
| Net assets:   |                       |                       |
| Unrestricted  | 17,606,911            | 6,529,332             |
| Temporarily restricted (Note 3)   | 80,130,127            | 69,046,959            |
| Permanently restricted (Note 4)   | 136,377,189           | 120,389,704           |
| Total net assets  | <u>234,114,227</u>    | <u>195,965,995</u>    |
| Total liabilities and net assets  | <u>\$ 245,575,685</u> | <u>\$ 206,841,707</u> |

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statement of Activities

Year ended June 30, 2004

|  | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|----------------------|---------------------------|---------------------------|-----------------------|
| Revenues and other additions:                                      |                      |                           |                           |                       |
| Contributions:   |                      |                           |                           |                       |
| University   | \$ 47,190            | \$ 29,962,532             | \$ 14,801,253             | \$ 44,810,975         |
| Foundation   | -                    | 75,266                    | -                         | 75,266                |
| University fee (Note 11)   | 202,225              | 57,417                    | -                         | 259,642               |
| Assessment fee (Note 12)   | 8,743,768            | -                         | -                         | 8,743,768             |
| Other income   | 17,120               | 861,810                   | 521,867                   | 1,400,797             |
| Investment income:   |                      |                           |                           |                       |
| Dividend and interest income                                       | 938,950              | 3,518,464                 | 117,335                   | 4,574,749             |
| Net unrealized and realized gains                                  | 18,012,572           | 4,452,201                 | -                         | 22,464,773            |
| Reclassification of contributions<br>pursuant to donor stipulation | (5,256,500)          | 4,518,610                 | 737,890                   | -                     |
| Net assets released from restrictions:                             |                      |                           |                           |                       |
| Satisfaction of donor restrictions                                 | 31,432,083           | (31,432,083)              | -                         | -                     |
| Total revenues and other additions                                 | <u>54,137,408</u>    | <u>12,014,217</u>         | <u>16,178,345</u>         | <u>82,329,970</u>     |
| Expenses and other deductions:                                     |                      |                           |                           |                       |
| Distributed to or for the University<br>of Cincinnati              | 30,773,854           | -                         | -                         | 30,773,854            |
| Operating expenses   | 10,354,266           | -                         | -                         | 10,354,266            |
| Assessment fee (Note 12)   | 1,547,680            | -                         | -                         | 1,547,680             |
| Total expenses   | <u>42,675,800</u>    | <u>-</u>                  | <u>-</u>                  | <u>42,675,800</u>     |
| Change in present value of annuities<br>payable                    | 384,029              | 931,049                   | 190,860                   | 1,505,938             |
| Total expenses and other deductions                                | <u>43,059,829</u>    | <u>931,049</u>            | <u>190,860</u>            | <u>44,181,738</u>     |
| Change in net assets   | 11,077,579           | 11,083,168                | 15,987,485                | 38,148,232            |
| Net assets, beginning of year                                      | 6,529,332            | 69,046,959                | 120,389,704               | 195,965,995           |
| Net assets, end of year  | <u>\$ 17,606,911</u> | <u>\$ 80,130,127</u>      | <u>\$ 136,377,189</u>     | <u>\$ 234,114,227</u> |

See accompanying notes to financial statements.



The University of Cincinnati Foundation

Statement of Activities

Year ended June 30, 2003

|  | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total          |
|--|--------------|---------------------------|---------------------------|----------------|
| Revenues and other additions:                                      |              |                           |                           |                |
| Contributions:   |              |                           |                           |                |
| University   | \$ 724,220   | \$ 27,754,329             | \$ 9,055,257              | \$ 37,533,806  |
| Foundation   | -            | 27,096                    | -                         | 27,096         |
| University fee (Note 11)   | 274,476      | 57,417                    | -                         | 331,893        |
| Assessment fee (Note 12)   | 8,032,523    | -                         | -                         | 8,032,523      |
| Other income   | 15,462       | 858,023                   | 40,903                    | 914,388        |
| Investment income:   |              |                           |                           |                |
| Dividend and interest income                                       | 931,709      | 3,375,613                 | 125,444                   | 4,432,766      |
| Net unrealized and realized losses                                 | (840,109)    | (537,323)                 | -                         | (1,377,432)    |
| Reclassification of contributions<br>pursuant to donor stipulation | (4,575,430)  | 2,544,772                 | 2,030,658                 | -              |
| Net assets released from restrictions:                             |              |                           |                           |                |
| Satisfaction of donor restrictions                                 | 24,156,051   | (24,156,051)              | -                         | -              |
| Total revenues and other additions                                 | 28,718,902   | 9,923,876                 | 11,252,262                | 49,895,040     |
| Expenses and other deductions:                                     |              |                           |                           |                |
| Distributed to or for the University<br>of Cincinnati              | 23,664,035   | -                         | -                         | 23,664,035     |
| Operating expenses   | 9,269,729    | -                         | -                         | 9,269,729      |
| Assessment fee (Note 12)   | 1,317,609    | -                         | -                         | 1,317,609      |
| Total expenses   | 34,251,373   | -                         | -                         | 34,251,373     |
| Change in present value of annuities<br>payable                    | -            | (36,211)                  | (673,048)                 | (709,259)      |
| Total expenses and other deductions<br>(additions)                 | 34,251,373   | (36,211)                  | (673,048)                 | 33,542,114     |
| Change in net assets   | (5,532,471)  | 9,960,087                 | 11,925,310                | 16,352,926     |
| Net assets, beginning of year                                      | 12,061,803   | 59,086,872                | 108,464,394               | 179,613,069    |
| Net assets, end of year  | \$ 6,529,332 | \$ 69,046,959             | \$ 120,389,704            | \$ 195,965,995 |

See accompanying notes to combined financial statements.

The University of Cincinnati Foundation

Statements of Cash Flows

|   | <b>Year ended June 30</b> |                 |
|---|---------------------------|-----------------|
|   | <b>2004</b>               | <b>2003</b>     |
| Cash flows from operating activities:   |                           |                 |
| Payments to or for the University of Cincinnati   | <b>\$ (30,703,838)</b>    | \$ (23,947,445) |
| University fees, assessment fees and other  | <b>8,726,437</b>          | 7,049,687       |
| Cash paid for compensation  | <b>(6,957,199)</b>        | (5,749,798)     |
| Cash received for gifts   | <b>17,347,495</b>         | 16,727,342      |
| Investment income available for distribution  | <b>4,590,173</b>          | 4,092,618       |
| Cash paid for operating expenses  | <b>(2,566,122)</b>        | (2,148,101)     |
| Net cash used in operating activities   | <b>(9,563,054)</b>        | (3,975,697)     |
| Cash flows from investing activities:   |                           |                 |
| Proceeds from sale of investments   | <b>27,528,173</b>         | 118,499,675     |
| Purchase of investments   | <b>(33,998,255)</b>       | (127,603,646)   |
| Purchase of property and equipment  | <b>(82,370)</b>           | (47,742)        |
| Net cash used in investing activities   | <b>(6,552,452)</b>        | (9,151,713)     |
| Cash flows from financing activities:   |                           |                 |
| Proceeds from contributions to endowment and similar funds                                | <b>14,801,253</b>         | 9,055,257       |
| Investment income restricted for reinvestment   | <b>33,544</b>             | 31,905          |
| Net cash provided by financing activities   | <b>14,834,797</b>         | 9,087,162       |
| Net decrease in cash and cash equivalents   | <b>(1,280,709)</b>        | (4,040,248)     |
| Cash and cash equivalents, beginning of year  | <b>10,566,583</b>         | 14,606,831      |
| Cash and cash equivalents, end of year  | <b>\$ 9,285,874</b>       | \$ 10,566,583   |
| Reconciliation of change in net assets to net cash used by operating activities:          |                           |                 |
| Increase in net assets  | <b>\$ 38,148,232</b>      | \$ 16,352,926   |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: |                           |                 |
| Provision for losses on pledges receivable  | <b>715,250</b>            | 927,528         |
| Depreciation and amortization   | <b>340,361</b>            | 336,360         |
| Increase in due from University of Cincinnati   | <b>(138,233)</b>          | (863,335)       |
| Decrease (increase) in accrued interest receivable  | <b>48,967</b>             | (308,240)       |
| (Increase) decrease in stock proceeds receivable  | <b>(430,430)</b>          | 48,071          |
| Increase in prepaid expenses  | <b>(4,494)</b>            | (31,500)        |
| Increase in pledges receivable  | <b>(11,382,470)</b>       | (10,820,230)    |
| Increase in cash surrender value of life insurance policies                               | <b>(159,048)</b>          | (140,002)       |
| Decrease (increase) in other assets   | <b>12,635</b>             | (16,672)        |
| Increase (decrease) in accounts payable   | <b>25,412</b>             | (225,922)       |
| (Decrease) increase in accrued liabilities  | <b>(75,862)</b>           | 117,504         |
| Increase in accrued compensation absences   | <b>15,692</b>             | 52,835          |
| Increase in agency payable  | <b>177,508</b>            | 203,426         |
| Increase (decrease) in refundable deposits  | <b>72,398</b>             | (44,929)        |
| Decrease in due to University of Cincinnati   | <b>(119,889)</b>          | (119,890)       |
| Increase (decrease) in present value of annuities payable                                 | <b>490,487</b>            | (1,733,897)     |
| Contributions to endowment and similar funds  | <b>(14,801,253)</b>       | (9,055,257)     |
| Investment income restricted for reinvestment   | <b>(33,544)</b>           | (31,905)        |
| Net (gain) loss on investments  | <b>(22,464,773)</b>       | 1,377,432       |
| Net cash used in operating activities   | <b>\$ (9,563,054)</b>     | \$ (3,975,697)  |

See accompanying notes to combined financial statements.

# The University of Cincinnati Foundation

## Notes to Financial Statements

June 30, 2004 and 2003

### **1. Organization**

The University of Cincinnati Foundation (the Foundation) is a not-for-profit organization that operates exclusively for the benefit of the University of Cincinnati (the University). Its principal function is to solicit, receive, hold, invest and administer funds and to make distributions to or for the benefit of the University. The Endowment Fund Association (the Association) was established in 1898 as the University's first endowment fund. In 2004, the Association was consolidated with the Foundation. Prior to 2004, the accounts of the Foundation and Association were combined for financial reporting purposes.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The financial statements of the Foundation, which are presented on the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. The Foundation maintains their financial accounts in accordance with the principles and practices of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors.

# The University of Cincinnati Foundation

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Basis of Presentation (continued)

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

*Permanently restricted* – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Contributions received by the Foundation for the benefit of the University are classified as University contributions on the Statements of Activities. Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restriction from temporarily restricted net assets to unrestricted net assets. If a donor requests a change in purpose or time period for use of funds, the change is recorded as a reclassification of contributions pursuant to donor stipulations on the Statements of Activities. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

# The University of Cincinnati Foundation

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Basis of Presentation (continued)**

Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. The Ohio Uniform Management of Institutional Funds Act (the Act) specifies that the governing board of an institution may appropriate for expenditure for the uses and purposes for which an endowment fund is established, up to 100% of the net realized and unrealized appreciation in the fair value of the assets of the endowment fund over the historic value of the fund. Accordingly, 100% of the amount of realized and unrealized appreciation of true endowment funds is classified as unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Contributions in the form of charitable gift annuities are recognized as revenue at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the donors. Payments made to donors reduce the annuity liability. Adjustments to the annuity liability to reflect changes in the life expectancy of the donor are recognized in the Statement of Activities as a change in present value of annuities payable.

#### **Plough Foundation**

Beginning in fiscal 1982, the Foundation transferred an amount of unrestricted money to the University to match an annual donation from the Plough Foundation to support scholarships in the College of Pharmacy. The final transfer was made in fiscal 1992. The terms of this agreement call for the transfers to be returned to the Foundation, over a ten-year period, beginning in fiscal 1998.

# The University of Cincinnati Foundation

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Plough Foundation (continued)**

The amount of unrestricted funds, which would return to the Foundation, was \$163,438 and \$191,258 as of June 30, 2004 and 2003, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 2004 and 2003, respectively.

#### **Cash and Cash Equivalents**

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2004 and 2003, \$7,896,662 and \$8,985,765 respectively, of cash and cash equivalents are in excess of federally insured limits.

#### **Investment Securities**

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 2004 and 2003 was approximately \$171,601,000 and \$158,437,000, respectively.

#### **Investment Property**

Investment property is recorded at fair market value at the date of the gift. Depreciation, recorded on the straight-line basis over the estimated useful life of the assets, is recorded on those properties that the Foundation intends to operate as rental properties.

#### **Property and Equipment**

Property and equipment are recorded at cost (or fair market value in the case of a gift) less accumulated depreciation and amortization. The estimated useful lives are principally four years for automobile and computer equipment, five years for office equipment, and ten years for software. All assets are depreciated using the straight-line method over the estimated useful lives of the assets.

# The University of Cincinnati Foundation

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Agency Transactions**

The Foundation has received funds whereby the Foundation is named as the trustee of the related assets. The gift arrangements direct the Foundation to distribute portions of the related assets to other charitable organizations when restrictions are met. A portion of the assets will benefit the Foundation. The amount of assets that are due other third party organizations is recorded as a payable of \$961,000 and \$784,000 at June 30, 2004 and 2003, respectively.

#### **Income Taxes**

The Foundation is a not-for-profit organizations as defined under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal income taxes.

#### **Use of Estimates**

Management has made estimates in preparing the financial statements based on currently available information that affect certain of the amounts reflected in the financial statements. Actual results could differ from those estimates.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

**3. Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, consist of the following:

|  | <u>2004</u>          | <u>2003</u>          |
|--|----------------------|----------------------|
| Unexpended contributions for restricted purposes | \$ 41,964,576        | \$ 37,561,763        |
| Pledges receivable                               | 33,636,558           | 27,386,133           |
| Annuity and life income funds                    | 4,528,993            | 4,099,063            |
| Total temporarily restricted net assets          | <u>\$ 80,130,127</u> | <u>\$ 69,046,959</u> |

**4. Permanently Restricted Net Assets**

Permanently restricted net assets as of June 30, consist of the following:

|   | <u>2004</u>           | <u>2003</u>           |
|---|-----------------------|-----------------------|
| Endowment funds                         | \$ 111,128,930        | \$ 100,678,509        |
| Pledges receivable                      | 22,452,035            | 17,110,980            |
| Annuity and life income funds           | 2,796,224             | 2,600,215             |
| Total permanently restricted net assets | <u>\$ 136,377,189</u> | <u>\$ 120,389,704</u> |



The University of Cincinnati Foundation

Notes to Financial Statements (continued)

**5. Pledges Receivable**

Contributors to the Foundation have made unconditional pledges totaling \$75,226,354 and \$68,313,724 as of June 30, 2004 and 2003, respectively. These pledges receivable have been discounted at a rate of 6.00% to a net present value of \$58,429,454 and \$47,515,234 as of June 30, 2004 and 2003, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

|  | <u>2004</u>                 | <u>2003</u>          |
|--|-----------------------------|----------------------|
| Less than one year                       | <b>\$ 26,980,394</b>        | \$ 13,800,219        |
| One to five years                        | <b>17,098,529</b>           | 17,326,879           |
| More than five years                     | <b>14,360,531</b>           | 16,388,136           |
| Subtotal                                 | <b>58,429,454</b>           | 47,515,234           |
| Less allowance for uncollectible pledges | <b>1,726,000</b>            | 1,479,000            |
| Total                                    | <b><u>\$ 56,703,454</u></b> | <u>\$ 46,036,234</u> |

Amounts due from irrevocable bequests and other trustee assets as of June 30, 2004 and 2003 of \$10,184,000 and \$12,683,000, respectively, are included in the total amount of unconditional pledges due in more than five years

In fiscal 2004, two donors made conditional pledges to the Foundation. As of June 30, 2004, the conditions were not substantially met so the net present value of the pledges is not included in the carrying amount of pledges receivable. The net present value of the pledges approximated \$1,671,000 as of June 30, 2004.

**6. Life Insurance Policies**

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the statement of financial position. The cash surrender value represents the amount the Foundation, as beneficiary, would realize if such policies were surrendered as of June 30, 2003 and 2004. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated \$5,979,000 and \$5,980,000 as of June 30, 2004 and 2003, respectively.

## The University of Cincinnati Foundation

### Notes to Financial Statements (continued)

#### **7. Investments**

In July 2002, the Foundation combined its pooled investment securities with the investment pool of the University. This action was taken to maximize investment diversification and realize economies of scale with respect to costs of managing the investments. The Foundation continues to serve as trustee for these assets. The Foundation maintains individual records of each fund included in the transfer of assets to the investment pool of the University. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each quarter. Income is allocated to each fund in the pool based on units of participation. The value of the pooled investments approximated \$129,088,000 and \$105,924,000 as of June 30, 2004 and 2003, respectively.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income earned in the investment pool to 5% of the moving average market value for the twelve-quarter period ended each December. Earnings above this limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2004 and 2003, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$5,363,000 and \$4,664,000, respectively. This shortfall was funded by capital gains in the investment pool for the years ended June 30, 2004 and 2003.

The Foundation also manages other investments, which amounted to approximately \$48,680,000 and \$45,206,000 as of June 30, 2004 and 2003, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

**8. Equipment and Automobile**

Equipment and automobile as of June 30 consist of the following:

|                               | <u>2004</u>       | <u>2003</u>       |
|-------------------------------|-------------------|-------------------|
| Office equipment              | \$ 591,685        | \$ 603,001        |
| Software                      | 781,376           | 848,033           |
| Automobile                    | 17,980            | 17,980            |
| Computer equipment            | <u>466,475</u>    | <u>478,345</u>    |
|                               | <u>1,857,516</u>  | 1,947,359         |
| Less accumulated depreciation | <u>1,289,554</u>  | <u>1,230,580</u>  |
|                               | <u>\$ 567,962</u> | <u>\$ 716,779</u> |

**9. Leases**

Rental expense for operating leases during 2004 and 2003 was approximately \$254,000 in each year.

The Foundation leases certain office space directly from the University. Rental expense recognized in the Statements of Activities was \$239,468 and \$239,472 in 2004 and 2003, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

**9. Leases (continued)**

Future minimum lease payments under noncancelable operating leases (with initial or remaining terms in excess of one year) as of June 30, are:

|                              | <b>Operating<br/>Leases</b> |
|------------------------------|-----------------------------|
| 2005                         | \$ 253,870                  |
| 2006                         | 245,470                     |
| 2007                         | 239,470                     |
| 2008                         | 239,470                     |
| 2009                         | 239,470                     |
| Thereafter                   | <u>3,651,920</u>            |
| Total minimum lease payments | <u>\$ 4,869,670</u>         |

**10. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

The carrying amounts of cash and cash equivalents, receivables (other than pledges receivable), prepaid expenses, cash surrender value of life insurance policies, accounts payable, accrued liabilities and accrued compensated absences approximate fair value because of the short maturity of these instruments.

The fair values of investments are estimated based on quoted market prices for those investments.

The carrying amounts of pledges receivable and annuities payable, which are anticipated to be collected and distributed in cash, respectively, are recorded at the net present value of such amounts.

## The University of Cincinnati Foundation

### Notes to Financial Statements (continued)

#### **10. Fair Value of Financial Instruments (continued)**

The Foundation is obligated to repay the University for the cost of equipment and improvements associated with the move of the Foundation's office in 2000. As of June 30, 2004 and 2003, the recorded amount of the non-interest bearing obligation is \$239,778 and \$359,667, respectively, and is payable in equal annual payments of \$119,889 with the final payment due in July 2005. As of June 30, 2004 and 2003, the fair value of the obligation is \$232,992 and \$339,693, respectively, which is the present value of expected future cash payments discounted at 6.00%.

#### **11. University Fee**

In accordance with an agreement with the University, the Foundation receives interest income earned on unexpended gift fund balances held at the University. The Foundation also receives reimbursement from certain colleges of the University for salaries and fringe benefits paid to college development employees below the director level.

#### **12. Assessment Fee**

The Foundation is primarily funded by a fee assessed on certain endowment funds held by the University and the Foundation. Funds that are eligible for the fee assessment include quasi-endowment funds, funds that are broadly restricted by college or department, funds whereby the donor has given permission to assess the fee, and unrestricted funds that do not have an internal designation. The gross assessment rate for 2004 and 2003 was 1.66% and 1.50%, respectively. Revenue to the Foundation from the fee was approximately \$8,744,000 and \$8,033,000 in 2004 and 2003, respectively, and is used to fund Foundation operations. Approximately, \$1,548,000 and \$1,318,000 of this fee was recorded from funds held by the Foundation in 2004 and 2003, respectively.

#### **13. Retirement Plan**

The Foundation participates in a retirement plan (TIAA/CREF) covering employees who meet length of service requirements. Under this arrangement, the Foundation and plan participants make annual contributions to purchase individual annuities equivalent to retirement benefits earned. The Foundation's share of the cost of these benefits was approximately \$444,000 and \$367,000 in 2004 and 2003, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

**14. Annuity and Life Income Funds**

The Foundation actively markets annuities and life income agreements as part of the development program. These agreements include gift annuities and split-interest trusts where the income beneficiaries receive an income stream for their lifetimes, or a fixed number of years, and the Foundation is the remainderman. The assets and liabilities of these funds as of June 30 are:

|   | <u>2004</u>         | <u>2003</u>         |
|---|---------------------|---------------------|
| <b>Annuities</b>                                  |                     |                     |
| Investments, at fair value                        | \$ 1,258,515        | \$ 1,363,392        |
| Less present value of annuities payable           | <u>967,577</u>      | <u>1,073,321</u>    |
|   | <u>\$ 290,938</u>   | <u>\$ 290,071</u>   |
|   |                     |                     |
|   | <u>2004</u>         | <u>2003</u>         |
| <b>Trusts</b>                                     |                     |                     |
| Investments, at fair value                        | \$ 16,138,735       | \$ 14,873,002       |
| Less present value of amounts payable from trusts | <u>7,370,249</u>    | <u>6,774,018</u>    |
|   | <u>\$ 8,768,486</u> | <u>\$ 8,098,984</u> |

## Report of Independent Auditors on Supplemental Schedules

Board of Trustees  
The University of Cincinnati Foundation

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Detail of Operating Expenses and Schedule of Activities – Unrestricted Net Assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

August 26, 2004

The University of Cincinnati Foundation  
 Schedule of Detail of Operating Expenses

Year ended June 30, 2004 and 2003

|  | <b>Foundation<br/>Operations</b> | <b>College/<br/>University<br/>Expenses</b> | <b>Total<br/>2004</b> | <b>Total<br/>2003</b> |
|--|----------------------------------|---|-----------------------|-----------------------|
| Salaries and wages                         | \$ 4,945,721                     | \$ 267,036                                  | \$ 5,212,757          | \$ 4,549,853          |
| Fringe benefits                            | 1,583,042                        | 101,228                                     | 1,684,270             | 1,370,286             |
| Provision for losses on pledges receivable | -                                | 715,250                                     | 715,250               | 927,528               |
| Professional services                      | 674,963                          | -   | 674,963               | 245,704               |
| Depreciation and amortization              | 281,522                          | 58,838                                      | 340,360               | 336,360               |
| Travel                                     | 272,856                          | -   | 272,856               | 150,992               |
| Building lease                             | 253,868                          | -   | 253,868               | 253,871               |
| Telephone and postage                      | 243,198                          | 2,418                                       | 245,616               | 249,853               |
| Promotional materials and events           | 202,292                          | -   | 202,292               | 258,267               |
| Business meetings                          | 124,459                          | -   | 124,459               | 137,854               |
| Computer and word processing               | 123,754                          | -   | 123,754               | 113,139               |
| Development and recruiting                 | 117,294                          | -   | 117,294               | 189,116               |
| Cleaning                                   | 61,114                           | -   | 61,114                | 60,709                |
| Direct marketing                           | 57,053                           | -   | 57,053                | 126,839               |
| Miscellaneous                              | 45,604                           | -   | 45,604                | 50,227                |
| Utilities, repairs and maintenance         | 43,610                           | -   | 43,610                | 41,391                |
| Resource materials                         | 34,482                           | -   | 34,482                | 35,931                |
| Public relations                           | 33,440                           | -   | 33,440                | 46,585                |
| Supplies                                   | 32,479                           | -   | 32,479                | 41,196                |
| Copying charges                            | 28,935                           | -   | 28,935                | 32,772                |
| Parking                                    | 28,170                           | -   | 28,170                | 26,473                |
| Insurance                                  | 21,640                           | -   | 21,640                | 24,783                |
|  | <b>\$ 9,209,496</b>              | <b>\$ 1,144,770</b>                         | <b>\$10,354,266</b>   | <b>\$ 9,269,729</b>   |



## The University of Cincinnati Foundation

## Schedule of Activities - Unrestricted Net Assets

Year ended June 30, 2004

|  | <b>Gifts and<br/>Transfers</b> | <b>Foundation<br/>Operations</b> | <b>Total</b>  |
|--|--------------------------------|----------------------------------|---------------|
| Revenues and other additions:                                      |                                |                                  |               |
| Contributions:   |                                |                                  |               |
| University   | \$ 47,190                      | \$ -                             | \$ 47,190     |
| University fee   | -                              | 202,225                          | 202,225       |
| Assessment fee   | -                              | 8,743,768                        | 8,743,768     |
| Other income   | 900                            | 16,220                           | 17,120        |
| Investment income:   |                                |                                  |               |
| Dividend and interest income                                       | 398,345                        | 540,605                          | 938,950       |
| Net unrealized and realized gains (losses)                         | 18,224,261                     | (211,689)                        | 18,012,572    |
| Reclassification of contributions pursuant<br>to donor stipulation | (5,363,727)                    | 107,227                          | (5,256,500)   |
| Net assets released from restrictions:                             |                                |                                  |               |
| Satisfaction of donor restrictions                                 | 31,432,083                     | -                                | 31,432,083    |
| Total revenues and other additions                                 | 44,739,052                     | 9,398,356                        | 54,137,408    |
| Expenses:  |                                |                                  |               |
| Distributions to or for the University<br>of Cincinnati            | 30,773,854                     | -                                | 30,773,854    |
| Operating expenses   | 1,144,769                      | 9,209,497                        | 10,354,266    |
| Assessment fee   | 1,547,680                      | -                                | 1,547,680     |
| Total expenses   | 33,466,303                     | 9,209,497                        | 42,675,800    |
| Change in present value of annuities payable                       | 384,029                        | -                                | 384,029       |
| Total expenses and deductions                                      | 33,850,332                     | 9,209,497                        | 43,059,829    |
| Change in net assets   | 10,888,720                     | 188,859                          | 11,077,579    |
| Net assets, beginning of year                                      | 4,193,952                      | 2,335,380                        | 6,529,332     |
| Net assets, end of year  | \$ 15,082,672                  | \$ 2,524,239                     | \$ 17,606,911 |

**Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards***

The Board of Trustees and The Audit Committee

The University of Cincinnati Foundation

We have audited the financial statements of The University of Cincinnati Foundation (the Foundation) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***


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

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, the Audit Committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 26, 2004





**Auditor of State  
Betty Montgomery**

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**UNIVERSITY OF CINCINNATI FOUNDATION  
HAMILTON 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 23, 2004**