

FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

The University of Cincinnati Foundation
June 30, 2005 and 2004
With Report of Independent Auditors



**Auditor of State
Betty Montgomery**

Board of Trustees
University of Cincinnati Foundation
Cincinnati, Ohio

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, 2004 through June 30, 2005. 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

October 31, 2005

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The University of Cincinnati Foundation
Financial Statements and Supplementary Schedules

June 30, 2005 and 2004

Contents

Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplementary Schedules	
Report of Independent Auditors on Supplementary Schedules	16
Schedule of Detail of Operating Expenses	17
Schedule of Activities – Unrestricted Net Assets.....	18

Report of Independent Auditors

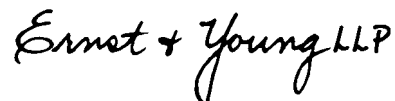
The Board of Trustees
The University of Cincinnati Foundation

We have audited the statements of financial position of The University of Cincinnati Foundation (the Foundation) as of June 30, 2005 and 2004, 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our 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, 2005 and 2004, 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, 2005 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, 2005

The University of Cincinnati Foundation

Statements of Financial Position

	June 30	
	2005	2004
Assets		
Cash	\$ 3,694,940	\$ 5,346,463
Due from University of Cincinnati	2,461,091	2,432,787
Accrued interest receivable	848,976	618,767
Stock proceeds receivable	94,775	443,564
Prepaid expenses	144,246	138,230
Pledges receivable, net of allowance <i>(Note 5)</i>	60,583,743	56,703,454
Cash surrender value of life insurance policies <i>(Note 6)</i>	1,223,027	988,041
Other	2,307	6,637
Investments, at fair value <i>(Note 7)</i> :		
Cash equivalents	4,810,871	3,939,411
Mutual funds	85,022,917	75,895,892
Domestic common stocks	63,924,219	62,315,509
U.S. Government and agency obligations	12,086,696	8,730,310
Corporate bonds	11,064,430	13,013,088
Municipal obligations	135,784	137,841
Foreign stocks	284,943	-
Real estate and community development	21,542,171	13,736,002
Total investments	198,872,031	177,768,053
Investment property, net of accumulated depreciation of \$1,006,000 in 2005 and \$947,000 in 2004	831,688	286,447
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$289,000 in 2005 and \$235,000 in 2004	220,955	275,280
Equipment and automobile, net of accumulated depreciation of \$1,389,000 in 2005 and \$1,290,000 in 2004	443,901	567,962
Total assets	\$ 269,421,680	\$ 245,575,685
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 908,166	\$ 871,686
Accrued liabilities	177,758	84,644
Accrued compensated absences	231,440	247,876
Agency payable <i>(Note 2)</i>	1,055,340	961,386
Refundable deposits	732,832	718,262
Due to University of Cincinnati <i>(Note 10)</i>	119,889	239,778
Present value of annuities payable <i>(Note 14)</i>	8,590,598	8,337,826
Total liabilities	11,816,023	11,461,458
Net assets:		
Unrestricted	19,174,238	17,606,911
Temporarily restricted <i>(Note 3)</i>	84,669,711	80,130,127
Permanently restricted <i>(Note 4)</i>	153,761,708	136,377,189
Total net assets	257,605,657	234,114,227
Total liabilities and net assets	\$ 269,421,680	\$ 245,575,685

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statement of Activities

Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 317,593	\$ 34,187,058	\$ 15,582,414	\$ 50,087,065
Foundation	-	20,074	-	20,074
University fee <i>(Note 11)</i>	335,437	57,417	-	392,854
Assessment fee <i>(Note 12)</i>	9,098,585	-	-	9,098,585
Other income	55	716,455	1,041,111	1,757,621
Investment income:				
Dividend and interest income	976,801	4,396,513	135,761	5,509,075
Net unrealized and realized gains	9,772,273	1,371,082	-	11,143,355
Reclassification of contributions pursuant to donor stipulations	(4,935,433)	4,237,147	698,286	-
Net assets released from restrictions:				
Satisfaction of donor restrictions	39,709,579	(39,709,579)	-	-
Total revenues and other additions	55,274,890	5,276,167	17,457,572	78,008,629
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	40,273,676	-	-	40,273,676
Operating expenses	11,669,797	-	-	11,669,797
Assessment fee <i>(Note 12)</i>	1,764,090	-	-	1,764,090
Total expenses	53,707,563	-	-	53,707,563
Change in present value of annuities payable	-	736,583	73,053	809,636
Total expenses and other deductions	53,707,563	736,583	73,053	54,517,199
Change in net assets	1,567,327	4,539,584	17,384,519	23,491,430
Net assets, beginning of year	17,606,911	80,130,127	136,377,189	234,114,227
Net assets, end of year	\$ 19,174,238	\$ 84,669,711	\$ 153,761,708	\$ 257,605,657

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statement of Activities

Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently 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 pursuant to donor stipulations	(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	54,137,408	12,014,217	16,178,345	82,329,970
Expenses and other deductions:				
Distributed to or for the University 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	42,675,800	-	-	42,675,800
Change in present value of annuities payable	384,029	931,049	190,860	1,505,938
Total expenses and other deductions	43,059,829	931,049	190,860	44,181,738
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	\$ 17,606,911	\$ 80,130,127	\$ 136,377,189	\$ 234,114,227

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statements of Cash Flows

	Year Ended June 30	
	2005	2004
Operating activities:		
Payments to or for the University of Cincinnati	\$ (40,313,567)	\$ (30,703,838)
University fees, assessment fees and other	9,454,979	8,726,437
Cash paid for compensation	(7,092,973)	(6,957,199)
Cash received for gifts	28,696,299	17,347,495
Investment income available for distribution	5,241,242	4,590,173
Cash paid for operating expenses	(2,575,228)	(2,566,122)
Net cash used in operating activities	<u>(6,589,248)</u>	<u>(9,563,054)</u>
Investing activities:		
Proceeds from sale of investments	25,598,163	27,528,173
Purchase of investments	(35,292,465)	(33,998,255)
Purchase of property and equipment	(116,553)	(82,370)
Net cash used in investing activities	<u>(9,810,855)</u>	<u>(6,552,452)</u>
Financing activities:		
Proceeds from contributions to endowment and similar fund	15,582,414	14,801,253
Investment income restricted for reinvestment	37,625	33,544
Net cash provided by financing activities	<u>15,620,039</u>	<u>14,834,797</u>
Net decrease in cash and cash equivalents	(780,064)	(1,280,709)
Cash and cash equivalents, beginning of year	9,285,875	10,566,584
Cash and cash equivalents, end of year	<u>\$ 8,505,811</u>	<u>\$ 9,285,875</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Increase in net assets	\$ 23,491,430	\$ 38,148,232
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	1,613,602	715,250
Depreciation and amortization	354,836	340,361
Increase in due from University of Cincinnati	(28,304)	(138,233)
(Increase) decrease in accrued interest receivable	(230,209)	48,967
Decrease (increase) in stock proceeds receivable	348,789	(430,430)
Increase in prepaid expenses	(6,016)	(4,494)
Increase in pledges receivable	(5,493,891)	(11,382,470)
Increase in cash surrender value of life insurance policies	(234,986)	(159,048)
Decrease in other assets	4,330	12,635
Increase in accounts payable	36,480	25,412
Increase (decrease) in accrued liabilities	93,114	(75,862)
(Decrease) increase in accrued compensation absences	(16,436)	15,692
Increase in agency payable	93,954	177,508
Increase in refundable deposits	14,570	72,398
Decrease in due to University of Cincinnati	(119,889)	(119,889)
Increase in present value of annuities payable	252,772	490,487
Contributions to endowment and similar fund	(15,582,414)	(14,801,253)
Investment income restricted for reinvestment	(37,625)	(33,544)
Net gain on investment	<u>(11,143,355)</u>	<u>(22,464,773)</u>
Net cash used in operating activities	<u>\$ (6,589,248)</u>	<u>\$ (9,563,054)</u>

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Notes to Financial Statements

June 30, 2005 and 2004

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.

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.

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.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors. In 2005, the Foundation had released approximately \$39,710,000 in restricted assets (\$11,990,000 for operations, maintenance, plant, \$9,528,000 for college/programs, \$3,944,000 for instruction, \$4,380,000 for auxiliary, \$3,755,000 for scholarship, \$2,702,000 for academic support, and \$3,411,000 for other). In 2004, the Foundation released approximately \$31,432,000 in restricted assets (\$9,371,000 for operations, maintenance, plant, \$6,044,000 for college/programs, \$2,971,000 for instruction, \$4,439,000 for auxiliary, \$3,188,000 for scholarship, \$2,798,000 for academic support, and \$2,621,000 for other).

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.

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,

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 amount of unrestricted funds, which would return to the Foundation, was approximately \$124,000 and \$163,000 as of June 30, 2005 and 2004, respectively. The Foundation has recorded these amounts as an amount due from the University as of June 30, 2005 and 2004, respectively.

Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2005 and 2004, approximately \$7,191,000 and \$7,897,000, 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, 2005 and 2004 was approximately \$188,477,000 and \$171,601,000, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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 to other third party organizations is recorded as a payable of approximately \$1,055,000 and \$961,000 at June 30, 2005 and 2004, 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, are restricted for the following purposes:

	<u>2005</u>	<u>2004</u>
Capital Projects	\$ 23,071,120	\$ 20,752,411
College/ Programs	18,353,844	16,999,622
Instruction	9,113,391	8,508,379
Scholarship	9,137,571	10,388,592
Academic Support	8,581,264	7,773,249
Auxiliary	5,750,046	5,572,023
Research	758,989	777,118
Annuity and Life Income Funds	4,676,984	4,528,993
Other	5,226,502	4,829,740
Total temporarily restricted net assets	<u>\$ 84,669,711</u>	<u>\$ 80,130,127</u>

4. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, are restricted for the following purposes:

	<u>2005</u>	<u>2004</u>
College/ Programs	\$ 60,731,517	\$ 57,349,227
Instruction	22,335,869	18,968,559
Scholarship	24,319,581	21,974,674
Academic Support	26,492,928	21,902,678
Auxiliary	5,878,033	4,716,790
Research	7,695,867	7,405,274
Annuity and Life Income Funds	2,835,053	2,796,224
Other	3,472,860	1,263,763
Total permanently restricted net assets	<u>\$ 153,761,708</u>	<u>\$ 136,377,189</u>

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

5. Pledges Receivable

Contributors to the Foundation have made unconditional pledges totaling approximately \$90,296,000 and \$75,226,000 as of June 30, 2005 and 2004, respectively. These pledges receivable have been discounted at a rate of 6.00% in 2005 and 2004, to a net present value of approximately \$62,727,000 and \$58,429,000 as of June 30, 2005 and 2004, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	<u>2005</u>	<u>2004</u>
Less than one year	\$ 29,440,063	\$ 26,970,394
One to five years	16,340,847	17,098,529
More than five years	16,945,833	14,360,531
Subtotal	<u>62,726,743</u>	<u>58,429,454</u>
Less allowance for uncollectible pledges	<u>2,143,000</u>	<u>1,726,000</u>
Total	<u>\$ 60,583,743</u>	<u>\$ 56,703,454</u>

Amounts due from irrevocable bequests and other trustee assets as of June 30, 2005 and 2004 of approximately \$13,060,000 and \$10,184,000, respectively, are included in the total amount of unconditional pledges due in more than five years

Four donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2005, the conditions were not substantially met therefore, the net present value of the pledges is not included in the carrying amount of pledges receivable. The net present value of the conditional pledges approximated \$1,107,000 and \$1,671,000 as of June 30, 2005 and 2004 respectively.

6. Life Insurance Policies

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the Statements 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, 2005 and 2004. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated \$6,115,000 and \$5,979,000 as of June 30, 2005 and 2004, 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 \$148,815,000 and \$129,088,000 as of June 30, 2005 and 2004, respectively.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income earned in the investment pool to 5.00% 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 2005 and 2004, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$5,052,000 and \$5,363,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2005 and 2004.

The Foundation also manages other investments, which amounted to approximately \$50,057,000 and \$48,680,000 as of June 30, 2005 and 2004, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

8. Equipment and Automobile

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

	<u>2005</u>	<u>2004</u>
Office equipment	\$ 625,113	\$ 591,685
Software	783,992	781,376
Automobile	17,980	17,980
Computer equipment	405,324	466,475
	<u>1,832,409</u>	<u>1,857,516</u>
Accumulated depreciation and amortization	<u>(1,388,508)</u>	<u>(1,289,554)</u>
	<u>\$ 443,901</u>	<u>\$ 567,962</u>

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

9. Leases

Rental expense for operating leases during 2005 and 2004 was approximately \$254,000 in each year. The Foundation leases certain office space directly from the University. Rental expense for this office space recognized in the Statements of Activities was approximately \$239,470 and \$239,470 in 2005 and 2004, respectively.

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

	Operating Leases
2006	\$ 245,470
2007	239,470
2008	239,470
2009	239,470
2010	239,470
Thereafter	3,412,450
Total minimum lease payments	<u>\$ 4,615,800</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, 2005 and 2004, the recorded amount of the non-interest bearing obligation is approximately \$120,000 and \$240,000, respectively, and is payable in equal annual payments of approximately \$120,000 with the final payment due in July 2005. As of June 30, 2005 and 2004, the fair value of the obligation is approximately \$120,000 and \$233,000, respectively.

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 2005 and 2004 was 1.85% and 1.66%, respectively. Revenue to the Foundation from the fee was approximately \$9,099,000 and \$8,744,000 in 2005 and 2004, respectively, and is used to fund Foundation operations. Approximately \$1,764,000 and \$1,548,000 of this fee was recorded from funds held by the Foundation in 2005 and 2004, 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 \$458,000 and \$444,000 in 2005 and 2004, 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>2005</u>	<u>2004</u>
Annuities		
Investments, at fair value	\$ 1,222,063	\$ 1,258,515
Less present value of annuities payable	<u>951,878</u>	<u>967,577</u>
	<u>\$ 270,185</u>	<u>\$ 290,938</u>
	<u>2005</u>	<u>2004</u>
Trusts		
Investments, at fair value	\$ 16,748,501	\$ 16,138,735
Less present value of amounts payable from trusts	<u>7,638,720</u>	<u>7,370,249</u>
	<u>\$ 9,109,781</u>	<u>\$ 8,768,486</u>

Report of Independent Auditors on Supplemental Schedules

The 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, 2005

The University of Cincinnati Foundation
 Schedule of Detail of Operating Expenses

Years Ended June 30, 2005 and 2004

	Foundation Operations	College/ University Expenses	Total 2005	Total 2004
Salaries and wages	\$ 5,118,184	\$ 264,302	\$ 5,382,486	\$ 5,212,757
Fringe benefits	1,684,026	103,137	1,787,163	1,684,270
Professional services	774,817	-	774,817	674,963
Provision for losses on pledges receivable	-	1,613,602	1,613,602	715,250
Depreciation and amortization	295,996	58,838	354,834	340,360
Travel	265,562	-	265,562	272,856
Building lease	253,872	-	253,872	253,868
Telephone and postage	244,980	2,828	247,808	245,616
Promotional materials and events	235,939	-	235,939	202,292
Business meetings	127,491	-	127,491	124,459
Computer and word processing	111,904	-	111,904	123,754
Development and recruiting	110,644	-	110,644	117,294
Cleaning	67,896	-	67,896	61,114
Direct marketing	44,783	-	44,783	57,053
Miscellaneous	69,205	-	69,205	45,604
Utilities, repairs and maintenance	41,680	-	41,680	43,610
Resource materials	35,149	-	35,149	34,482
Public relations	29,609	-	29,609	33,440
Supplies	31,356	-	31,356	32,479
Copying charges	25,144	-	25,144	28,935
Parking	33,604	-	33,604	28,170
Insurance	25,249	-	25,249	21,640
	\$ 9,627,090	\$ 2,042,707	\$11,669,797	\$ 10,354,266

The University of Cincinnati Foundation

Schedule of Activities - Unrestricted Net Assets

Year Ended June 30, 2005

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions:			
University	\$ 317,593	\$ -	\$ 317,593
University fee	-	335,437	335,437
Assessment fee	-	9,098,585	9,098,585
Other income	50	5	55
Investment income:			
Dividend and interest income	373,321	603,480	976,801
Net unrealized and realized gains (losses)	9,901,790	(129,517)	9,772,273
Reclassification of contributions pursuant to donor stipulation	(5,049,937)	114,504	(4,935,433)
Net assets released from restrictions:			
Satisfaction of donor restrictions	39,709,579	-	39,709,579
Total revenues and other additions	<u>45,252,396</u>	<u>10,022,494</u>	<u>55,274,890</u>
Expenses and other deductions:			
Distributions to or for the University of Cincinnati	40,273,676	-	40,273,676
Operating expenses	2,042,707	9,627,090	11,669,797
Assessment fee	1,764,090	-	1,764,090
Total expenses and deductions	<u>44,080,473</u>	<u>9,627,090</u>	<u>53,707,563</u>
Change in net assets	1,171,923	395,404	1,567,327
Net assets, beginning of year	15,082,672	2,524,239	17,606,911
Net assets, end of year	<u>\$ 16,254,595</u>	<u>\$ 2,919,643</u>	<u>\$ 19,174,238</u>

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

The Board of Directors of 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, 2005, and have issued our report thereon dated August 26, 2005. 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.

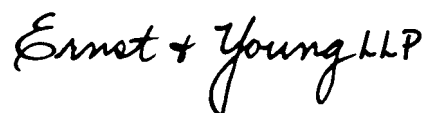
Internal Control Over Financial Reporting

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 an opinion 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 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 error 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, 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, 2005



**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 10, 2005**