Financial Statements and Report of Independent Certified Public Accountants

The University of Cincinnati Foundation

June 30, 2007

Mary Taylor, CPA
Auditor of State

Board of Trustees
The University of Cincinnati Foundation
P.O. Box 19970
Cincinnati, Ohio 45219-0970

We have reviewed the *Report of Independent Certified Public Accountants* of The University of Cincinnati Foundation, Hamilton County, prepared by Grant Thornton LLP, for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 5, 2007

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Grant Thornton

Accountants and Business Advisors

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The University of Cincinnati Foundation

We have audited the accompanying statement of financial position of The University of Cincinnati Foundation (the Foundation) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of financial position as of June 30, 2006, and the related statements of activities and cash flows for the year then ended were audited by other auditors. Their report dated September 25, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2007, and the change in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Grant Thornton LLP

Cincinnati, Ohio
October 4, 2007

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THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash	$ 9,263,477	$ 8,375,862
Due from University of Cincinnati	2,694,176	2,667,921
Accrued interest receivable	1,209,288	2,709,007
Life insurance receivable	-	1,000,000
Stock proceeds receivable	215,823	10,254,514
Prepaid expenses	112,664	135,874
Pledges receivable, net of allowance	35,454,066	39,474,463
Trusts held by others	8,805,449	5,395,319
Cash surrender value of life insurance policies	967,034	874,768
Other	35,096	11,537
Investments, at fair value		
Cash equivalents	5,608,499	4,766,189
Mutual funds	136,157,213	103,666,844
Common stocks	61,542,172	59,230,086
U.S. Government and agency obligations	9,314,655	7,121,462
Corporate bonds	9,057,994	6,046,002
Real estate and community development	27,375,562	31,209,580
Total investments	249,056,095	212,040,163
Investment property, net of accumulated depreciation of $1,065,000 in 2006	-	977,548
Property and equipment:		
Leasehold improvements, net of accumulated amortization of $358,000 in 2007 and $340,000 in 2006	919,048	176,687
Equipment and automobile, net of accumulated depreciation of $1,601,000 in 2007 and $1,518,000 in 2006	301,044	345,657
TOTAL ASSETS	$ 309,033,260	$ 284,439,320
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 435,055	$ 1,182,989
Payment due to Health Alliance - Lindner Center	-	10,174,828
Accrued liabilities	366,548	154,435
Accrued compensated absences	299,984	269,562
Agency payable	1,252,604	1,229,544
Refundable deposits	835,001	754,201
Accrued interest income due to investment pool	905,699	2,478,253
Present value of annuities payable	8,663,694	8,415,523
TOTAL LIABILITIES	12,758,585	24,659,335
NET ASSETS		
Unrestricted	41,305,342	26,356,115
Temporarily restricted	69,065,588	70,087,137
Permanently restricted	185,903,745	163,336,733
TOTAL NET ASSETS	296,274,675	259,779,985
TOTAL LIABILITIES AND NET ASSETS	$ 309,033,260	$ 284,439,320

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 418,066	$ 20,814,377	$ 19,110,038	$ 40,342,481
Foundation	-	35,630	-	35,630
University fee	1,090,689	40,681	-	1,131,370
Assessment fee	9,916,468	-	-	9,916,468
Change in value of split interest agreements	65,020	167,248	196,182	428,450
Other income	9,472	938,368	1,147,737	2,095,577
Investment income:				
Dividend and interest income	979,999	4,903,450	214,209	6,097,658
Net unrealized and realized gains	24,290,096	3,598,915	-	27,889,011
Reclassification of contributions pursuant to donor stipulation	(7,558,281)	5,538,527	2,019,754	-
Net assets released from restrictions:				
Satisfaction of donor restrictions	36,308,577	(36,308,577)	-	-
Total revenues and other additions	65,520,106	(271,381)	22,687,920	87,936,645
Expenses and other deductions:				
Distributions to or for the University of Cincinnati	35,649,813	-	-	35,649,813
Operating expenses	12,696,976	-	-	12,696,976
Assessment fee	2,224,090	-	-	2,224,090
Total expenses and other deductions	50,570,879	-	-	50,570,879
Change in present value of annuities payable	-	750,168	120,908	871,076
Total expenses and other deductions	50,570,879	750,168	120,908	51,441,955
Change in net assets	14,949,227	(1,021,549)	22,567,012	36,494,690
Net assets at beginning of year	26,356,115	70,087,137	163,336,733	259,779,985
Net assets at end of year	$ 41,305,342	$ 69,065,588	$ 185,903,745	$ 296,274,675

The accompanying notes are an integral part of this financial statement.

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 604,041	$ 26,008,117	$ 5,835,606	$ 32,447,764
Foundation	-	26,303	-	26,303
University fee	780,845	54,764	-	835,609
Assessment fee	9,328,863	-	-	9,328,863
Change in value of split interest agreements	39,901	55,391	56,724	152,016
Other income	187	847,077	273,425	1,120,689
Investment income:				
Dividend and interest income	967,510	6,939,735	152,978	8,060,223
Net unrealized and realized gains	14,502,970	2,600,315	-	17,103,285
Reclassification of contributions pursuant to donor stipulation	(5,907,939)	2,644,568	3,263,371	-
Net assets released from restrictions:				
Satisfaction of donor restrictions	53,101,897	(53,101,897)	-	-
Total revenues and other additions	73,418,275	(13,925,627)	9,582,104	69,074,752
Expenses and other deductions				
Distributions to or for the University of Cincinnati	51,097,141	-	-	51,097,141
Operating expenses	13,228,232	-	-	13,228,232
Assessment fee	1,911,025	-	-	1,911,025
Total expenses and other deductions	66,236,398	-	-	66,236,398
Change in present value of annuities payable	-	656,947	7,079	664,026
Total expenses and other deductions	66,236,398	656,947	7,079	66,900,424
Change in net assets	7,181,877	(14,582,574)	9,575,025	2,174,328
Net assets at beginning of year	19,174,238	84,669,711	153,761,708	257,605,657
Net assets at end of year	$ 26,356,115	$ 70,087,137	$ 163,336,733	$ 259,779,985

The accompanying notes are an integral part of this financial statement.

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2007 and 2006

	2007	2006
Operating activities:		
Payments to or for the University of Cincinnati	$ (48,246,120)	$ (38,137,075)
University fees, assessment fees and other	11,892,720	8,166,449
Cash paid for compensation	(7,935,371)	(7,646,197)
Cash received for gifts	30,185,817	29,511,344
Investment income available for distribution	7,561,915	6,147,372
Cash paid for operating expenses	(3,046,795)	(2,909,455)
Net cash used in operating activities	(9,587,834)	(4,867,562)
Investing activities:		
Proceeds from sale of investments	23,477,621	32,747,140
Purchase of investments	(30,376,009)	(29,063,089)
Purchase of property and equipment	(929,521)	(125,399)
Net cash (used in) provided by investing activities	(7,827,909)	3,558,652
Financing activities:		
Proceeds from contributions to endowment and similar funds	19,110,038	5,892,330
Investment income restricted for reinvestment	35,630	52,820
Net cash provided by financing activities	19,145,668	5,945,150
Net increase in cash and cash equivalents	1,729,925	4,636,240
Cash and cash equivalents, beginning of year	13,142,051	8,505,811
Cash and cash equivalents, end of year	$ 14,871,976	$ 13,142,051
Reconciliation of change in net assets to net cash used in operating activities:		
Increase in net assets	$ 36,494,690	$ 2,174,328
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	1,119,738	2,481,360
Depreciation and amortization	269,991	328,472
Increase in due from University of Cincinnati	(26,255)	(206,830)
Decrease (increase) in accrued interest receivable	1,499,719	(1,860,031)
Decrease (increase) in stock proceeds receivable	10,038,691	(10,159,739)
Decrease in prepaid expenses	23,210	8,372
Decrease in pledges receivable	2,453,766	13,751,936
Gifts to trusts held by others	(2,981,680)	(367,319)
(Increase) decrease in cash surrender value of life insurance policies	(92,266)	348,259
Increase in other assets	(23,559)	(9,230)
Decrease (increase) in life insurance benefits receivable	1,000,000	(1,000,000)
(Decrease) increase in accounts payable	(747,934)	768,533
(Decrease) increase in payment due to Health Alliance-Lindner Center	(10,174,828)	10,174,828
Increase (decrease) in accrued liabilities	212,113	(23,323)
Increase in accrued compensated absences	30,422	38,122
Increase in agency payable	23,060	174,204
Increase in refundable deposits	80,800	21,369
Decrease in due to University of Cincinnati		(119,889)
(Decrease) increase in accrued interest income due to investment pool	(1,572,554)	1,984,543
Increase (decrease) in present value of annuities payable	248,171	(175,075)
Contributions to endowment and similar funds	(19,110,038)	(5,892,330)
Change in value of split interest agreements	(428,450)	(152,016)
Investment income restricted for reinvestment	(35,630)	(52,820)
Net gain on investments	(27,889,011)	(17,103,286)
Net cash used in operating activities	$ (9,587,834)	$ (4,867,562)

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

NOTE 1 - DESCRIPTION OF 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Resources for various purposes are classified into net asset classes 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.

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 2007, the Foundation released approximately $36,309,000 in restricted assets ($6,237,000 for operations, maintenance, plant, $10,853,000 for college programs, $4,368,000 for instruction, $4,160,000 for auxiliary, $4,016,000 for scholarship, $4,328,000 for academic support, and $2,347,000 for other). In 2006, the Foundation released approximately $53,102,000 in restricted assets ($7,954,000 for operations, maintenance, plant, $20,415,000 for college programs, $5,729,000 for instruction, $4,611,000 for auxiliary, $3,610,000 for scholarship, $3,493,000 for academic support, and $7,290,000 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 stipulation on the Statement 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 amount of unrestricted funds, which would return to the Foundation, was approximately $42,500 and $86,000 as of June 30, 2007 and 2006, respectively. The Foundation has recorded these amounts as an amount due from the University as of June 30, 2007 and 2006, respectively.

Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2007 and 2006, approximately $14,024,000 and $12,213,000 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, 2007 and 2006 was approximately $232,408,000 and $198,225,000 respectively.

NOTE 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 $1,253,000 and $1,230,000 at June 30, 2007 and 2006, respectively.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of contributions, revenues, gains, and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Foundation holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

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

	2007	2006
Capital projects	$ 9,652,922	$ 11,810,119
College programs	22,618,042	21,929,050
Instruction	5,996,549	6,280,385
Scholarship	9,483,502	8,707,602
Academic support	8,036,879	9,272,056
Auxiliary	4,492,788	4,544,782
Research	1,929,857	1,066,165
Annuity and life income funds	5,551,817	4,526,878
Other	1,303,232	1,950,100
Total temporarily restricted net assets	$ 69,065,588	$ 70,087,137

NOTE 4 - PERMANENTLY RESTRICTED NET ASSETS

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

	2007	2006
College programs	$ 76,744,482	$ 65,143,581
Instruction	22,996,603	21,065,778
Scholarship	30,048,689	26,629,826
Academic support	30,971,027	29,229,950
Auxiliary	7,900,970	6,493,211
Research	9,701,191	7,590,238
Annuity and life income funds	2,179,072	2,736,655
Other	5,361,711	4,447,494
Total permanently restricted net assets	$ 185,903,745	$ 163,336,733

NOTE 5 - PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately $53,010,000 and $54,705,000 as of June 30, 2007 and 2006, respectively. These pledges receivable have been discounted at a rate of 6.00% in 2007 and 2006, to a net present value of approximately $37,884,000 and $41,283,000 as of June 30, 2007 and 2006, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	2007	2006
Less than one year	$ 10,776,553	$ 15,203,636
One to five years	14,464,145	13,619,512
More than five years	12,643,368	12,460,315
Subtotal	37,884,066	41,283,463
Less allowance for uncollectible pledges	(2,430,000)	(1,809,000)
Total	$ 35,454,066	$ 39,474,463

Amounts due from irrevocable bequests as of June 30, 2007 and 2006 of approximately $10,025,000 and $8,530,000, respectively, are included in the total amount of unconditional pledges due in more than five years.

Seventeen donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2007, 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 $23,846,000 as of June 30, 2007. There were six donors with outstanding conditional pledges as of June 30, 2006. The net present value of the conditional pledges at June 30, 2006 was approximately $14,354,000.

NOTE 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, 2007 and 2006. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated $4,461,000 and $4,503,000 as of June 30, 2007 and 2006, respectively.

NOTE 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 month. Income is allocated to each fund in the pool based on units of participation. The value of the pooled investments approximated $203,257,000 and $171,491,000 as of June 30, 2007 and 2006, respectively.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income earned in the investment pool. The spending rate was 6.00% (5.00% for the year ended June 30, 2006) 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 2007 and 2006, income earned in the investment pool was less than the amount allocated for expenditure by approximately $7,607,000 and $5,873,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2007 and 2006.

The Foundation also manages other investments, which amounted to approximately $45,799,000 and $40,549,000 as of June 30, 2007 and 2006, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

The following presents investments held by the Foundation and the University on behalf of the Foundation as of June 30, 2007 and 2006:

	2007 Market Value	2007 Cost	2006 Market Value	2006 Cost
Cash equivalents	$ 5,608,499	$ 5,608,499	$ 4,766,189	$ 4,766,189
U.S. Government and agency obligations	9,314,655	9,876,894	7,121,462	7,653,393
Corporate bonds	9,057,994	9,312,886	6,046,002	6,267,268
Mutual funds	136,157,213	122,741,612	103,666,844	92,043,743
Common stocks	61,542,172	57,679,723	59,230,086	55,758,948
Real estate and community development	27,375,562	27,188,726	31,209,580	31,734,988
Total	$ 249,056,095	$ 232,408,340	$ 212,040,163	$ 198,224,529

NOTE 7 – INVESTMENTS (continued)

The University pool holds primarily common stock, mutual funds, and coporate and government fixed income obligations, which are stated at fair value as determined by market prices. Approximately 30% of the pool is invested in alternative investment instruments, including hedge funds, and private equity interests. In addition, the pool invests in loans to certain not-for-profit entities for the purpose of developing residential and commercial facilities near the University's main campus. These loans are secured by mortgages, some of which are subordinated to external financing arrangements, on parcels of land purchased by these not-for-profit entities for development. Alternative investments are stated at fair value, as provided by the investment managers, or based on independent appraisals in the case of real estate. Audited financial statements as of June 30, 2007, are used as a basis for fair value when available. When not available, the fair value is based upon financial information of an interim date, adjusted for cash receipts, cash disbursements and other distributions made through June 30, 2007. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2007. Alternative investments are not readily marketable; therefore, the estimated values of these investments are subject to certain risks. The fair value of these investments could differ from the value that may have been determined had a market for the investment existed.

NOTE 8 – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

The Foundation has been notified of fourteen trusts held by other trustees where the remainder interest will irrevocably benefit the University. In addition, the Foundation has been notified of two charitable lead unitrusts held by other trustees where annual payments are received by the Foundation. The Foundation values these assets by projecting the value of the trust assets to future periods and then discounting the anticipated cash flows at a rate of 6%.

Beneficial interest in trusts held by other trustees amounted to approximately $8,805,000 and $5,395,000 as of June 30, 2007 and 2006, respectively.

NOTE 9 - EQUIPMENT AND AUTOMOBILE

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

	2007	2006
Office equipment	$ 620,570	$ 637,008
Software	858,132	796,194
Automobile	17,980	17,980
Computer equipment	405,050	412,312
	1,901,732	1,863,494
Accumulated depreciation and amortization	(1,600,688)	(1,517,837)
	$ 301,044	$ 345,657

NOTE 10 - LEASES

Rental expense for operating leases was $239,470 and $245,470 in 2007 and 2006, respectively. The Foundation leases certain office space directly from the University. The lease expires on September 30, 2024, and is renewable for two additional terms of 20 years each. Rental expense for this office space recognized in the Statements of Activities was $239,470 in both 2007 and 2006.

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

2008	$ 239,470
2009	239,470
2010	239,470
2011	239,470
2012	239,470
Thereafter	2,933,510
Total minimum lease payments	$ 4,130,860

NOTE 11 - 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 generally estimated based on quoted market prices for those investments. Certain investments held in the University's pool do not have readily determinable market values. These investments are carried at estimated fair value provided by the investment managers. The majority of these investments are valued based upon independently audited financial information as of June 30, 2007, or information provided as of an interim date, which is adjusted for cash receipts, cash disbursements, and other distributions made through June 30, 2007. The Foundation believes that the carrying value of these alternative investments is a reasonable estimate of fair value at June 30, 2007. Real estate is valued at fair value based upon independent appraisals. Loans receivable are stated at the present value of the expected future payments, plus accrued interest. 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.

NOTE 12 - 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.

NOTE 13 - 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 2007 and 2006 was 1.85%. Revenue to the Foundation from the fee was approximately $9,916,000 and $9,329,000 in 2007 and 2006, respectively, and is used to fund Foundation operations. Approximately $2,224,000 and $1,911,000 of this fee was recorded from funds held by the Foundation in 2007 and 2006, respectively.

NOTE 14 - RETIREMENT PLANS

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 $493,000 and $474,000 in 2007 and 2006, respectively.

The Foundation also maintains a Section 457 plan for highly compensated employees. The Foundation is making annual contributions on behalf of the President for calendar years 2006 through 2008 in keeping with the employment agreement. Accounts for other participating employees are currently funded solely by salary deduction contributions. The plan is structured to permit Foundation contributions on behalf of the participants, as defined. The amount contributed by the Foundation totaled $30,500 for the period ended June 30, 2007. No contribution was made during the year ended June 30, 2006.

NOTE 15 - 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:

	2007	2006
Annuities		
Investments, at fair value	$ 1,604,151	$ 1,531,415
Less present value of annuities payable	(1,051,242)	(1,090,472)
	$ 552,909	$ 440,943
Trusts		
Investments, at fair value	$ 17,957,260	$ 16,740,668
Less present value of amounts payable from trusts	(7,612,452)	(7,325,051)
	$ 10,344,808	$ 9,415,617

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The University of Cincinnati Foundation

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of The University of Cincinnati Foundation as of and for the year ended June 30, 2007, which is presented in the preceding section of this report. The accompanying Schedule of Detail of Operating Expenses and Schedule of Activities-Unrestricted Net Assets are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information for the year ended June 30, 2007, has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information for the year ended June 30, 2006, was audited by other auditors. Their report dated September 25, 2006, expressed an unqualified opinion on that information.

Grant Thornton LLP

Cincinnati, Ohio
October 4, 2007

THE UNIVERSITY OF CINCINNATI FOUNDATION

SCHEDULE OF DETAIL OF OPERATING EXPENSES

Years ended June 30, 2007 and 2006

	Foundation Operations	College/ University Expenses	Total 2007	Total 2006
Salaries and wages	$ 5,727,656	$ 284,368	$ 6,012,024	$ 5,706,789
Fringe benefits	2,052,905	112,975	2,165,880	1,954,208
Professional services	1,056,815	-	1,056,815	892,556
Provision for losses on pledges receivable	-	1,101,295	1,101,295	2,481,360
Depreciation and amortization	211,153	58,838	269,991	328,471
Travel	197,520	-	197,520	197,633
Building lease	239,470	-	239,470	245,470
Telephone and postage	266,856	1,571	268,427	252,716
Promotional materials and events	337,339	-	337,339	202,170
Business meetings	147,329	-	147,329	134,112
Computer and word processing	115,525	-	115,525	114,188
Development and recruiting	241,795	-	241,795	258,196
Cleaning	94,993	-	94,993	69,356
Direct Marketing	76,745	-	76,745	43,759
Miscellaneous	76,955	-	76,955	65,313
Utilities, repairs and maintenance	63,036	-	63,036	43,354
Resource materials	34,967	-	34,967	35,936
Public Relations	46,014	-	46,014	22,274
Supplies	37,921	-	37,921	32,137
Copying charges	41,471	-	41,471	38,567
Parking	35,731	759	36,490	33,371
Insurance	32,300	-	32,300	29,896
Gift annuity reserve	2,674	-	2,674	46,400
	$ 11,137,170	$ 1,559,806	$ 12,696,976	$ 13,228,232

THE UNIVERSITY OF CINCINNATI FOUNDATION

SCHEDULE OF ACTIVITIES-UNRESTRICTED NET ASSETS

Year ended June 30, 2007

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions:			
University	$ 418,066	$ -	$ 418,066
University fee	-	1,090,689	1,090,689
Assessment fee	-	9,916,468	9,916,468
Other income	9,472	-	9,472
Change in value of split interest agreement	65,020	-	65,020
Investment income:			
Dividend and interest income	448,490	531,509	979,999
Net unrealized and realized gains	24,177,962	112,134	24,290,096
Reclassification of contributions pursuant to donor stipulation	(7,612,466)	54,185	(7,558,281)
Net assets released from restrictions:			
Satisfaction of donor restrictions	36,308,577	-	36,308,577
Total revenues and other additions	$ 53,815,121	$ 11,704,985	$ 65,520,106
Expenses and other deductions:			
Distributions to or for the University of Cincinnati	$ 35,649,813	$	$ 35,649,813
Operating expenses	1,559,806	11,137,170	12,696,976
Assessment fee	2,224,090		2,224,090
Total expenses and other deductions	39,433,709	11,137,170	50,570,879
Change in net assets	14,381,412	567,815	14,949,227
Net assets, beginning of year	23,030,430	3,325,685	26,356,115
Net assets, end of year	$ 37,411,842	$ 3,893,500	$ 41,305,342

Grant Thornton

Accountants and Business Advisors

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*

Board of Trustees
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, 2007, and have issued our report thereon dated October 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement in the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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 grants 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Foundation in a separate letter dated October 4, 2007.

This report is intended solely for the information and use of the board of trustees, management, and the State of Ohio Office of the Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Cincinnati, Ohio
October 4, 2007

Mary Taylor, CPA
Auditor of State

UNIVERSITY OF CINCINNATI FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 3, 2008

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