

Financial Statements and Report of Independent  
Certified Public Accountants

**The University of Cincinnati Foundation**

June 30, 2009 and 2008





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 on Independent Certified Public Accountants* of The University of Cincinnati Foundation, Hamilton County, prepared by Grant Thornton LLP, for the audit period July 1, 2008 through June 30, 2009. 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 2, 2009

**This Page is Intentionally Left Blank.**

# Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Schedules:	
Report of Independent Certified Public Accountants on Supplementary Information	25
Schedule of Detail of Operating Expenses	26
Schedule of Activities – Unrestricted Net Assets	27



**Audit • Tax • Advisory**

**Grant Thornton LLP**  
4000 Smith Road, Suite 500  
Cincinnati, OH 45209-1967

T 513.762.5000  
F 513.241.6125  
www.GrantThornton.com

## **Report of Independent Certified Public Accountants**

The Board of Trustees  
The University of Cincinnati Foundation

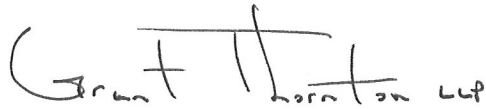
We have audited the accompanying statements of financial position of The University of Cincinnati Foundation (the "Foundation") (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's 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 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 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, 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note G to the financial statements, the Foundation has adopted Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and *Enhanced Disclosures for All Endowment Funds*, on June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009 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 effectiveness of the Foundation's 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 audits.



Cincinnati, Ohio  
October 14, 2009

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 6,405,554	\$ 12,321,093
Due from University of Cincinnati	1,083,644	2,736,062
Accrued interest receivable	1,003,015	1,264,821
Stock proceeds receivable	4,037	7,092
Prepaid expenses	146,433	116,582
Pledges receivable, net of allowance	60,787,261	63,635,617
Trusts held by others	5,978,761	7,545,842
Cash surrender value of life insurance policies	847,598	818,318
Other	31,566	51,547
Investments, at fair value:		
Cash equivalents	4,301,318	2,610,254
Mutual funds	12,619,123	18,963,739
Common stocks	6,887,762	9,053,141
U.S. Government and agency obligations	3,141,045	4,665,538
Corporate bonds	8,994,626	4,387,019
University pooled investments	<u>158,410,696</u>	<u>201,824,174</u>
Total investments	<u>194,354,570</u>	<u>241,503,865</u>
Property and equipment:		
Leasehold improvements, net of accumulated amortization of approximately \$606,000 in 2009 and \$476,000 in 2008	728,124	835,839
Equipment and automobile, net of accumulated depreciation of approximately \$1,675,000 in 2009 and \$1,662,000 in 2008	<u>431,247</u>	<u>415,125</u>
	<u>\$ 271,801,810</u>	<u>\$ 331,251,803</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Accounts payable	\$ 474,948	\$ 508,059
Accrued liabilities	83,644	411,169
Accrued compensated absences	463,594	398,893
Agency payable	1,990,254	1,038,264
Refundable deposits	522,928	713,279
Accrued interest income due to investment pool	649,938	937,198
Present value of annuities payable	<u>5,842,915</u>	<u>8,277,238</u>
TOTAL LIABILITIES	<u>10,028,221</u>	<u>12,284,100</u>
NET ASSETS		
Unrestricted	(29,610,192)	17,925,143
Temporarily restricted	76,246,208	80,842,404
Permanently restricted	<u>215,137,573</u>	<u>220,200,156</u>
TOTAL NET ASSETS	<u>261,773,589</u>	<u>318,967,703</u>
	<u>\$ 271,801,810</u>	<u>\$ 331,251,803</u>

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



THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other additions:				
Contributions:				
University	\$ 435,832	\$ 32,826,875	\$ 11,262,331	\$ 44,525,038
Foundation	70,000	82,316	-	152,316
University fee	1,093,532	-	-	1,093,532
Assessment fee	11,121,226	-	-	11,121,226
Change in value of split interest agreements	(179,995)	(372,738)	(1,014,348)	(1,567,081)
Other income	1,842	1,490,294	86,889	1,579,025
Investment income:				
Dividend and interest income	888,011	8,830,853	125,917	9,844,781
Net unrealized and realized losses	(42,935,482)	(10,022,589)	-	(52,958,071)
Reclassification of contributions pursuant to donor stipulation	(7,917,213)	8,032,448	(115,235)	-
Net assets released from restrictions - satisfaction of donor restrictions	56,879,118	(56,879,118)	-	-
Total revenues and other additions	<u>19,456,871</u>	<u>(16,011,659)</u>	<u>10,345,554</u>	<u>13,790,766</u>
Expenses and other deductions				
Distributions to or for the University of Cincinnati	53,580,261	-	-	53,580,261
Operating expenses	16,010,909	-	-	16,010,909
Assessment fee	2,935,440	-	-	2,935,440
Total expenses	<u>72,526,610</u>	<u>-</u>	<u>-</u>	<u>72,526,610</u>
Change in present value of annuities payable	-	(262,409)	(1,279,321)	(1,541,730)
Total expenses and other deductions	<u>72,526,610</u>	<u>(262,409)</u>	<u>(1,279,321)</u>	<u>70,984,880</u>
Reclassification of accumulated gains on endowment funds pursuant to the enactment of the Ohio Uniform Prudent Management of Institutional Funds Act and other reclassifications	5,534,404	11,153,054	(16,687,458)	-
Change in net assets	(47,535,335)	(4,596,196)	(5,062,583)	(57,194,114)
Net assets at beginning of year	<u>17,925,143</u>	<u>80,842,404</u>	<u>220,200,156</u>	<u>318,967,703</u>
Net assets at end of year	<u>\$ (29,610,192)</u>	<u>\$ 76,246,208</u>	<u>\$ 215,137,573</u>	<u>\$ 261,773,589</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other additions:				
Contributions:				
University	\$ 1,646,417	\$ 40,258,500	\$ 33,894,592	\$ 75,799,509
Foundation	-	76,247	-	76,247
University fee	1,128,839	-	-	1,128,839
Assessment fee	10,273,569	-	-	10,273,569
Change in value of split interest agreements	(104,928)	(174,012)	(980,667)	(1,259,607)
Other income	20,491	1,682,408	333,926	2,036,825
Investment income:				
Dividend and interest income	998,848	9,603,057	136,502	10,738,407
Net unrealized and realized losses	(14,994,622)	(3,220,686)	-	(18,215,308)
Reclassification of contributions pursuant to donor stipulation	(6,163,083)	5,263,612	899,471	-
Net assets released from restrictions - satisfaction of donor restrictions	41,308,050	(41,308,050)	-	-
Total revenues and other additions	<u>34,113,581</u>	<u>12,181,076</u>	<u>34,283,824</u>	<u>80,578,481</u>
Expenses and other deductions				
Distributions to or for the University of Cincinnati	40,360,524	-	-	40,360,524
Operating expenses	14,552,051	-	-	14,552,051
Assessment fee	2,581,205	-	-	2,581,205
Total expenses	<u>57,493,780</u>	<u>-</u>	<u>-</u>	<u>57,493,780</u>
Change in present value of annuities payable	<u>-</u>	<u>404,260</u>	<u>(12,587)</u>	<u>391,673</u>
Total expenses and other deductions	<u>57,493,780</u>	<u>404,260</u>	<u>(12,587)</u>	<u>57,885,453</u>
Change in net assets	(23,380,199)	11,776,816	34,296,411	22,693,028
Net assets at beginning of year	<u>41,305,342</u>	<u>69,065,588</u>	<u>185,903,745</u>	<u>296,274,675</u>
Net assets at end of year	<u>\$ 17,925,143</u>	<u>\$ 80,842,404</u>	<u>\$ 220,200,156</u>	<u>\$ 318,967,703</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating activities:</b>		
Payments to or for the University of Cincinnati	\$ (54,417,014)	\$ (42,286,491)
University fees, assessment fees and other	12,500,891	10,795,774
Cash paid for compensation	(10,362,591)	(9,028,362)
Cash received for gifts	36,403,527	13,100,070
Investment income available for distribution	9,323,615	9,869,527
Cash paid for operating expenses	<u>(4,403,135)</u>	<u>(3,879,452)</u>
Net cash used in operating activities	<u>(10,954,707)</u>	<u>(21,428,934)</u>
<b>Investing activities:</b>		
Proceeds from sale of investments	26,081,141	36,156,739
Purchase of investments	(31,765,934)	(50,915,435)
Purchase of property and equipment	<u>(180,920)</u>	<u>(305,677)</u>
Net cash used in investing activities	<u>(5,865,713)</u>	<u>(15,064,373)</u>
<b>Financing activities:</b>		
Proceeds from contributions to endowment and similar funds	11,812,973	35,901,565
Investment income restricted for reinvestment	<u>782,972</u>	<u>813,347</u>
Net cash provided by financing activities	<u>12,595,945</u>	<u>36,714,912</u>
Net increase in cash and cash equivalents	(4,224,475)	221,605
Cash and cash equivalents, beginning of year	<u>14,931,347</u>	<u>14,709,742</u>
Cash and cash equivalents, end of year	<u>\$ 10,706,872</u>	<u>\$ 14,931,347</u>
Reconciliation of change in net assets to net cash used in operating activities:		
(Decrease) increase in net assets	\$ (57,194,114)	\$ 22,693,028
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	1,269,754	1,202,404
Depreciation and amortization	272,513	274,805
Decrease (increase) in due from University of Cincinnati	1,652,418	(41,886)
Decrease (increase) in accrued interest receivable	261,806	(55,533)
Decrease in stock proceeds receivable	3,055	208,731
Increase in prepaid expenses	(29,851)	(3,918)
Decrease (increase) in pledges receivable	3,145,683	(28,124,348)
(Increase) decrease in cash surrender value of life insurance policies	(29,280)	148,716
Decrease (increase) in other assets	19,981	(16,451)
(Decrease) increase in accounts payable	(33,110)	73,004
(Decrease) increase in accrued liabilities	(327,526)	44,621
Increase in accrued compensated absences	64,701	98,909
Increase (decrease) in agency payable	951,990	(214,340)
Decrease in refundable deposits	(190,351)	(121,722)
(Decrease) increase in accrued interest income due to investment pool	(287,260)	31,499
Decrease in present value of annuities payable	(2,434,323)	(386,456)
Contributions to endowment and similar funds	(11,812,973)	(35,901,565)
Change in value of split interest agreements	1,567,081	1,259,607
Investment income restricted for reinvestment	(782,972)	(813,347)
Net loss on investments	<u>52,958,071</u>	<u>18,215,308</u>
Net cash used in operating activities	<u>\$ (10,954,707)</u>	<u>\$ (21,428,934)</u>

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

# THE UNIVERSITY OF CINCINNATI FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

### NOTE A - 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. 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 (US GAAP). Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Resources for various purposes are classified into net assets 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 2009, the Foundation released approximately \$56,879,000 in restricted assets (\$7,501,000 for operations, maintenance, plant, \$25,808,000 for college programs, \$4,009,000 for instruction, \$5,272,000 for auxiliary, \$5,722,000 for scholarship, \$4,440,000 for academic support, and \$4,127,000 for other). In 2008, the Foundation released approximately \$41,308,000 in restricted assets (\$1,641,000 for operations, maintenance, plant, \$15,931,000 for college programs, \$3,853,000 for instruction, \$6,711,000 for auxiliary, \$4,740,000 for scholarship, \$5,101,000 for academic support, and \$3,331,000 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-imposed 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 Statements of Activities.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

1. Basis of Presentation (continued)

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.

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 Statements of Activities as a change in present value of annuities payable.

2. Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2009 and 2008, approximately \$6,153,000 and \$13,898,000 respectively, of cash and cash equivalents are in excess of federally insured limits. The overnight funds are collateralized by U.S. government backed securities.

3. Investment Securities

Investment securities, excluding University pooled investments, are carried at fair value based on quoted market prices. The Foundation has pooled certain investments with the University and owns units of that pool. Depending on the underlying investments in the pool, these units are carried at fair value based on quoted market prices or information provided by investment managers.

4. 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.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

5. 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 value lives are principally four years for automobile and computer equipment, five years for office equipment, and ten years for software. All assets are depreciated/amortized using the straight-line method over the estimated useful lives of the assets.

6. 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 \$1,990,000 and \$1,038,000 at June 30, 2009 and 2008, respectively.

7. 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.

In December 2008, Financial Accounting Standards Board (FASB) Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FSP Fin 48-3) was issued. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of FIN 48 for the year ending June 30, 2009. The Foundation evaluates its uncertain tax positions using the provisions of FASB Statement No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized, as necessary, when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated.

8. Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

9. 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.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

9. Risks and Uncertainties (continued)

The credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in world financial markets and the banking system. Several large banking and financial institutions have been: acquired by the federal government; granted government loan guarantees; taken over by federal regulators; sold in overnight auctions; or, have initiated bankruptcy proceedings. These and other events have had a significant negative impact on foreign and domestic financial markets. As a result, the Foundation's investment portfolio may continue to experience volatility in fair value. However, because the values of the Foundation's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

10. Fair Value Measurements

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Company uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Company may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

11. Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

**NOTE C - TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
Capital projects	\$ 7,812,335	\$ 10,966,518
College programs	26,238,857	27,162,030
Instruction	5,900,475	5,872,849
Scholarships	14,569,579	14,686,039
Academic support	4,815,861	6,876,173
Auxiliary	6,402,509	6,532,678
Research	5,353,718	2,288,792
Annuity and life income funds	3,047,502	4,734,851
Other	<u>2,105,372</u>	<u>1,722,474</u>
Total temporarily restricted net assets	\$ <u>76,246,208</u>	\$ <u>80,842,404</u>

Endowment funds included in temporarily restricted net assets are \$41,024,780 and \$42,466,088 as of June 30, 2009 and 2008, respectively.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE D - PERMANENTLY RESTRICTED NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
College programs	\$101,561,618	\$ 99,221,074
Instruction	23,847,915	23,574,593
Scholarships	40,276,326	41,790,267
Academic support	26,320,458	29,939,514
Auxiliary	6,990,082	8,210,097
Research	10,915,424	11,665,175
Annuity and life income funds	1,333,699	1,413,801
Other	<u>3,892,051</u>	<u>4,385,635</u>
 Total permanently restricted net assets	 <u>\$215,137,573</u>	 <u>\$220,200,156</u>

Endowment funds included in permanently restricted net assets are \$175,485,111 and \$179,335,291 as of June 30, 2009 and 2008, respectively.

**NOTE E - PLEDGES RECEIVABLE**

Contributors to the Foundation have made unconditional pledges totaling approximately \$79,146,000 and \$83,124,000 as of June 30, 2009 and 2008, respectively. For payments that extend beyond one year, these pledges receivable have been discounted at rates ranging from 2.3% to 6.0% to a net present value of approximately \$63,247,000 and \$66,014,000 as of June 30, 2009 and 2008, respectively. As of June 30, the unpaid pledges are due as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	\$20,415,399	\$18,683,442
One to five years	25,413,146	30,037,023
More than five years	<u>17,418,716</u>	<u>17,293,152</u>
	63,247,261	66,013,617
 Less allowance for uncollectible pledges	 <u>(2,460,000)</u>	 <u>(2,378,000)</u>
 Total	 <u>\$60,787,261</u>	 <u>\$63,635,617</u>

Amounts due from irrevocable bequests, which are unconditional promises to give, as of June 30, 2009 and 2008 of approximately \$15,152,000 and \$14,713,000, respectively, are included in the total amount of unconditional pledges due in more than five years.



**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE E - PLEDGES RECEIVABLE (continued)**

Seventeen donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2009, 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 \$15,613,000 as of June 30, 2009. There were fifteen donors with outstanding conditional pledges as of June 30, 2008. The net present value of the conditional pledges at June 30, 2008 was approximately \$18,039,000.

**NOTE F - 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. As of June 30, 2009 and 2008, the University is holding approximately \$779,000 and \$771,000, respectively, that is to be invested in the University investment pool. These amounts are recorded as cash equivalents in the Statements of Financial Position.

The Foundation also manages other investments, which amounted to approximately \$35,164,000 and \$38,908,000 as of June 30, 2009 and 2008, 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 as of June 30, 2009 and 2008:

	<b>2009 Market Value</b>	<b>2009 Cost</b>	<b>2008 Market Value</b>	<b>2008 Cost</b>
Cash equivalents	\$ 4,301,318	\$ 4,301,318	\$ 2,610,254	\$ 2,610,254
US Government and agency obligations	3,141,045	2,904,349	4,665,538	4,596,902
Corporate bonds	8,994,626	8,850,053	4,387,019	4,356,436
Mutual funds	12,619,123	15,103,850	18,963,739	18,679,990
Common stocks	6,887,762	7,462,572	9,053,141	8,224,110
University pooled investments	<u>158,410,696</u>	<u>213,587,963</u>	<u>201,824,174</u>	<u>208,152,861</u>
Total	<u>\$194,354,570</u>	<u>\$252,210,105</u>	<u>\$241,503,865</u>	<u>\$246,620,553</u>

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE F – INVESTMENTS** (continued)

The number of units in the University investment pool owned by the Foundation totaled 2,087,670 and 1,921,304, which represents 26% and 25% share of the University investment pool, as of June 30, 2009 and 2008, respectively. The University pool holds primarily common stock, mutual funds, and corporate and government fixed income obligations, which are stated at fair value as determined by market prices. 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. Certain investments in the University investment pool are stated at fair value, as provided by the investment managers. Audited financial statements of the underlying investments in the University investment pool as of June 30, 2009 and 2008, are used as a basis for fair value when available. When not available, the fair value is based upon financial information as of an interim date, adjusted for cash receipts, cash disbursements and other distributions made through June 30, 2009 and 2008. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2009 and 2008. Certain underlying investments in the University investment pool are not readily marketable; therefore, the estimated values of these investments are subject to certain risks. As a result, the fair value of the University pooled investments could differ from the value that may have been determined had a market for certain investments in the University investment pool existed.

The underlying investments that comprise the University investment pool as of June 30, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
US equity securities	37 %	37 %
International equity securities	20	19
Fixed income securities	15	21
Private equity capital	8	5
Hedge funds	3	3
Real estate and community development	17	15
Total	100 %	100 %

**NOTE G - ENDOWMENT FUNDS**

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was passed into law by the State of Ohio in December 2008 with an effective date of June 1, 2009 and adopted by the Foundation as of June 30, 2009. FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, prescribes accounting treatment for organizations subject to an enacted version of UPMIFA and requires specific disclosures for all organizations with permanently restricted endowment funds, whether or not UPMIFA has been enacted. These disclosures include activity of endowment funds by net asset class, including investment income, unrealized gains and losses on investments, contributions,

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE G - ENDOWMENT FUNDS** (continued)

expenditures, reclassifications, and other changes, and the composition of endowment funds by net asset class, showing donor restricted endowments separately from board designated funds.

The Foundation's endowment pool and separately invested endowment funds include donor restricted endowment funds, funds designated by the Board of Trustees for reinvestment in the endowment funds, and investment income on the endowment funds that have been appropriated for expenditure. As required by US GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the absence or existence of donor imposed restrictions.

The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with the Foundation's interpretation of UPMIFA, investment income and appreciation/depreciation earned on investments held in the permanently restricted endowment funds are credited to either unrestricted or temporarily restricted net assets, unless otherwise stipulated by the donor.

There are approximately 770 endowment funds. As of June 30, 2009, the fair value of these funds collectively was \$34,578,585 less than the original gift amounts. Of that amount, approximately \$33,259,605 relates to donor restricted gifts, and the remainder relates to board designated gifts also held in the endowment pool or invested separately.

Prior to the adoption of UPMIFA, the Ohio Uniform Management of Institutional Funds Act specified 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 was classified as unrestricted net assets.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income. The spending rate is 6.0% of the moving average market value for the twelve-quarter period ended each December. The spending rate was reduced to 5%, effective July 1, 2009. Earnings above the spend rate limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2009 and 2008, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$8,799,000 and \$6,168,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2009 and 2008.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE G - ENDOWMENT FUNDS** (continued)

The endowment net asset composition by type of fund as of June 30, 2009, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$(35,242,059)	\$41,024,780	\$175,485,111	\$181,267,832
Board designated endowment funds	<u>3,161,116</u>	<u>-</u>	<u>-</u>	<u>3,161,116</u>
Total	<u>\$(32,080,943)</u>	<u>\$41,024,780</u>	<u>\$175,485,111</u>	<u>\$184,428,948</u>

The change in endowment fund net assets for the year ended June 30, 2009, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,117,165	\$42,466,088	\$179,335,291	\$235,918,544
Net asset reclassification based on change in law	<u>(11,153,054)</u>	<u>11,153,054</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	2,964,111	53,619,142	179,335,291	235,918,544
Investment return:				
Investment income	403,523	8,729,960	-	9,133,483
Net realized/unrealized (loss) gain	<u>(50,682,956)</u>	<u>82,971</u>	<u>-</u>	<u>(50,599,985)</u>
Total investment return	(50,279,433)	8,812,931	-	(41,466,502)
Contributions	-	5,853,164	11,726,431	17,579,595
Appropriation of endowment assets for expenditure	(1,482,087)	(28,336,186)	(449,985)	(30,268,258)
Other changes				
Other reclassifications	16,687,458	-	(16,687,458)	-
Other income	981	470,173	1,309,610	1,780,764
Split interest agreements	(663,474)	-	663,474	-
Transfers	616,821	192,563	(809,384)	-
Income reinvestment	<u>74,680</u>	<u>412,993</u>	<u>397,132</u>	<u>884,805</u>
Endowment net assets, end of year	<u>\$(32,080,943)</u>	<u>\$41,024,780</u>	<u>\$175,485,111</u>	<u>\$184,428,948</u>

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE G - ENDOWMENT FUNDS** (continued)

The other reclassifications of \$16,687,458 represent net assets that were previously recorded as permanently restricted based on the Foundation's interpretation of donor restrictions and regulations in effect at the time.

The endowment net asset composition by type of fund as of June 30, 2008, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 4,419,667	\$42,466,088	\$179,335,291	\$226,221,046
Board designated endowment funds	<u>9,697,498</u>	-	-	<u>9,697,498</u>
Total	<u>\$14,117,165</u>	<u>\$42,466,088</u>	<u>\$179,335,291</u>	<u>\$235,918,544</u>

The change in endowment fund net assets for the year ended June 30, 2008, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$36,983,445	\$37,127,467	\$140,576,539	\$ 214,687,451
Investment return:				
Investment income	429,041	9,054,624	-	9,483,665
Net realized/unrealized (loss) gain	<u>(21,391,607)</u>	<u>3,633,071</u>	-	<u>(17,758,536)</u>
Total investment return	(20,962,566)	12,687,695	-	(8,274,871)
Contributions	-	8,961,163	35,654,869	44,616,032
Appropriation of endowment assets for expenditure	(2,012,452)	(17,553,570)	-	(19,566,022)
Other changes				
Other income	-	784,595	2,808,267	3,592,862
Income reinvestment	<u>108,738</u>	<u>458,738</u>	<u>295,616</u>	<u>863,092</u>
Endowment net assets, end of year	<u>\$14,117,165</u>	<u>\$42,466,088</u>	<u>\$179,335,291</u>	<u>\$235,918,544</u>

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE H - FAIR VALUE MEASUREMENTS**

On July 1, 2008, the Foundation adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a frame work for measuring fair value, and expands disclosures about fair value measurements.

Fair value instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or level 1 inputs) include equity securities and mutual funds. Fair value instruments measured at fair value using inputs based on quoted market prices for similar instruments in active markets (or level 2 inputs) include money markets, certificates of deposit, U.S. Treasury and agency obligations, corporate obligations and repurchase agreements. The Foundation invests in the University investment pool and other investments, which the Foundation bases fair value on the net asset value of each entry, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by the Foundation's management. Under FAS 157, these fair value instruments are measured at fair value on a recurring basis using significant unobservable inputs (or level 3 inputs).

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at June 30, 2009:

	Balance at <u>June 30, 2009</u>	Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Money markets	\$ 3,382,428	\$ -	\$ 3,382,428	\$ -
Certificate of deposit	100,000	-	100,000	-
Equity securities	6,887,762	6,887,762	-	-
Mutual funds	12,619,123	12,619,123	-	-
U.S. treasury and agency obligations	3,141,045	-	3,141,045	-
Corporate bonds	8,994,626	-	8,881,573	113,053
Repurchase agreements	6,152,987	-	6,152,987	-
University pooled investments	<u>158,410,696</u>	<u>-</u>	<u>-</u>	<u>158,410,696</u>
Total assets at fair value	<u>\$199,688,667</u>	<u>\$19,506,885</u>	<u>\$21,658,033</u>	<u>\$158,523,749</u>

See Note F for a breakout of the underlying investments in the University pooled investments.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE H - FAIR VALUE MEASUREMENTS (continued)**

Assets measured and recorded at fair value are presented on the statement of financial position at June 30, 2009 as follows:

	Balance at <u>June 30, 2009</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 6,152,987	\$ -	\$ 6,152,987	\$ -
Investments	<u>193,535,680</u>	<u>19,506,885</u>	<u>15,505,046</u>	<u>158,523,749</u>
	<u>\$199,688,667</u>	<u>\$19,506,885</u>	<u>\$21,658,033</u>	<u>\$158,523,749</u>

Realized and unrealized gains and losses related to these fair value instruments total \$(53,564,139) as of June 30, 2009, and are included in net realized/unrealized (loss) on investments in the accompanying consolidated statements of activities, except for those fair value instruments where the Foundation is not the beneficiary.

A reconciliation of the balance of the level 3 fair value instruments at July 1, 2008 to the balance as of June 30, 2009, is as follows:

Beginning balance	\$201,931,010
Investments	14,964,591
Income	4,509,904
Reinvested income	758,901
Liquidations	(15,343,448)
Net losses	<u>(48,297,209)</u>
Ending balance	<u>\$158,523,749</u>

Gains and losses for these level 3 fair value instruments are included in net realized/unrealized losses in the accompanying consolidated statements of activities. The total amount of losses above included in changes in net assets that is attributable to assets held at the reporting date is \$(57,452,952).

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE I - 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 investment 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 or information provided as of an interim date, which is adjusted for cash receipts, cash disbursements, and other distributions made through June 30, 2009 and 2008, respectively. The Foundation believes that the carrying value of these investments in the University investment pool is a reasonable estimate of fair value at June 30, 2009 and 2008. See also Notes F and H.

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 J - EQUIPMENT AND AUTOMOBILE**

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

	<b>2009</b>	<b>2008</b>
Office equipment		
Software	\$ 589,341	\$ 625,731
Automobile	1,042,368	966,636
Computer equipment	25,068	25,068
	<u>449,076</u>	<u>460,054</u>
	2,105,853	2,077,489
Accumulated depreciation and amortization	<u>(1,674,606)</u>	<u>(1,662,364)</u>
	<u>\$ 431,247</u>	<u>\$ 415,125</u>



**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE K - LEASES**

Rental expense for operating leases was \$239,470 for both 2009 and 2008. 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.

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

2010	\$ 239,470
2011	239,470
2012	239,470
2013	239,470
2014	239,470
Thereafter	<u>2,454,570</u>
Total minimum lease payments	<u>\$3,651,920</u>

**NOTE L - 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, 2009 and 2008. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated \$4,115,000 and \$3,561,000 as of June 30, 2009 and 2008, respectively.

**NOTE M - 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 \$5,979,000 and \$7,546,000 as of June 30, 2009 and 2008, respectively.

**NOTE N - 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.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE O - 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 both 2009 and 2008 was 1.85%. Revenue to the Foundation from the fee was approximately \$11,121,000 and \$10,274,000 in 2009 and 2008, respectively, and is used to fund Foundation operations. Approximately \$2,935,000 and \$2,581,000 of this fee was recorded from funds held by the Foundation in 2009 and 2008, respectively.

**NOTE P - 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:

	2009	2008
<b>Annuities</b>		
Investments, at fair value	\$1,465,227	\$1,765,412
Less present value of annuities payable	(1,211,155)	(1,318,231)
	<u>\$ 254,072</u>	<u>\$ 447,181</u>
	<b>2009</b>	<b>2008</b>
<b>Trusts</b>		
Investments, at fair value	\$9,436,776	\$1,765,412
Less present value of annuities payable	(4,631,760)	(6,959,007)
	<u>\$4,805,016</u>	<u>\$7,855,162</u>

**NOTE Q - 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 \$698,000 and \$572,000 for the years ended June 30, 2009 and 2008, respectively.

The Foundation also maintains a Section 457 plan for highly compensated employees. The Foundation made 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 reduction contributions. The plan is structured to permit Foundation contributions on behalf of the participants, as defined. The amount contributed by the Foundation totaled \$0 and \$4,500 for the years ended June 30, 2009 and 2008, respectively.

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009 and 2008

**NOTE R - RELATED PARTY TRANSACTIONS**

Certain board members of the Foundation made contributions of \$216,648 and \$3,143,856 during fiscal year 2009 and 2008, respectively. In addition, certain board members are employees of organizations which provide services to the Foundation. Total fees paid to these organizations were \$138,989 and \$164,216 for the years ended June 30, 2009 and 2008 respectively.

**NOTE S - SUBSEQUENT EVENTS**

In May 2008, FASB Statement No. 165 (FAS 165), *Subsequent Events*, was issued. FAS 165 incorporates the accounting and disclosure requirements for subsequent events into US GAAP. FAS 165 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date. The Foundation adopted FAS 165 as of June 30, 2009, which was the required effective date.

The Foundation evaluated its June 30, 2009 financial statements for subsequent events through October 14, 2009, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



Grant Thornton

**Report of Independent Certified Public Accountants on  
Supplementary Information**

**Audit • Tax • Advisory**

**Grant Thornton LLP**  
4000 Smith Road, Suite 500  
Cincinnati, OH 45209-1967

T 513.762.5000  
F 513.241.6125  
www.GrantThornton.com

The Board of Trustees  
The University of Cincinnati Foundation

We have audited the basic financial statements of The University of Cincinnati Foundation as of and for the years ended June 30, 2009 and 2008 and have issued our report thereon dated October 14, 2009, which is presented in the preceding section of this report. Our audits were performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing 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.

Cincinnati, Ohio  
October 14, 2009

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**SCHEDULE OF DETAIL OF OPERATING EXPENSES**

Years ended June 30, 2009 and 2008

	<u>Foundation Operations</u>	<u>College/ University Expenses</u>	<u>Total 2009</u>	<u>Total 2008</u>
Salaries and wages	\$ 6,906,054	\$ 397,091	\$ 7,303,145	\$ 6,797,394
Fringe benefits	2,599,793	196,828	2,796,621	2,374,501
Provision for losses on pledges receivable	-	1,269,754	1,269,754	1,202,404
Professional services	1,117,403	16,565	1,133,968	1,316,728
Promotional materials and events	1,058,916	-	1,058,916	483,112
Telephone and postage	314,707	-	314,707	295,426
General support- Alumni Association	304,444	-	304,444	251,554
Depreciation and amortization	272,513	-	272,513	274,805
Building lease	239,470	-	239,470	239,470
Travel	205,597	-	205,597	228,751
Development and recruiting	175,333	-	175,333	156,995
Public relations	159,701	-	159,701	37,653
Computer and word processing	140,383	-	140,383	175,848
Business meetings	121,737	-	121,737	167,288
Cleaning	96,230	-	96,230	106,618
Direct marketing	79,417	-	79,417	79,502
Utilities, repairs and maintenance	58,237	-	58,237	57,920
Copying charges	50,466	-	50,466	49,259
Membership dues	46,342	-	46,342	46,889
Parking	40,360	-	40,360	42,898
Supplies	39,769	-	39,769	35,784
Resource materials	37,008	-	37,008	38,480
Insurance	32,990	-	32,990	30,593
Miscellaneous	26,021	-	26,021	56,594
Gift annuity reserve	7,780	-	7,780	5,585
	<u>\$ 14,130,671</u>	<u>\$ 1,880,238</u>	<u>\$ 16,010,909</u>	<u>\$ 14,552,051</u>

**THE UNIVERSITY OF CINCINNATI FOUNDATION**  
**SCHEDULE OF ACTIVITIES - UNRESTRICTED NET ASSETS**

Year ended June 30, 2009

	<b>Gifts and Transfers</b>	<b>Foundation Operations</b>	<b>Total</b>
Revenues and other additions:			
Contributions:			
University	\$ 435,832	\$ -	\$ 435,832
Foundation	-	70,000	70,000
University fee	-	1,093,532	1,093,532
Assessment fee	-	11,121,226	11,121,226
Change in value of split interest agreement	(179,995)	-	(179,995)
Other income	1,842	-	1,842
Investment income:			
Dividend and interest income	503,594	384,417	888,011
Net unrealized and realized losses	(42,357,017)	(578,465)	(42,935,482)
Reclassification of contributions pursuant to donor stipulation	(8,463,459)	546,246	(7,917,213)
Net assets released from restrictions- satisfaction of donor restrictions	56,879,118	-	56,879,118
Total revenues and other additions	6,819,915	12,636,956	19,456,871
Expenses and other deductions:			
Distributions to or for the University of Cincinnati	53,580,261	-	53,580,261
Operating expenses	1,880,238	14,130,671	16,010,909
Assessment fee	2,935,440	-	2,935,440
Total expenses and other deductions	58,395,939	14,130,671	72,526,610
Reclassification of accumulated gains on endowment funds pursuant to the enactment of the Ohio Uniform Prudent Management of Institutional Funds Act	5,534,404	-	5,534,404
Change in net assets	(46,041,620)	(1,493,715)	(47,535,335)
Net assets, beginning of year	14,809,146	3,115,997	17,925,143
Net assets, end of year	\$ (31,232,474)	\$ 1,622,282	\$ (29,610,192)



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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***

**Audit • Tax • Advisory**

**Grant Thornton LLP**  
4000 Smith Road, Suite 500  
Cincinnati, OH 45209-1967

T 513.762.5000  
F 513.241.6125  
[www.GrantThornton.com](http://www.GrantThornton.com)

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, 2009, and have issued our report thereon dated October 14, 2009. 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.

**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 audit procedures for the purpose of expressing an 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 express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiency in the following to be a significant deficiency in internal control over financial reporting.

The Foundation reclassified \$16.7 million of net appreciation from permanently restricted net assets to unrestricted net assets as a result of the Foundation's interpretation of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which states that investment income and appreciation/depreciation earned on investments held in the permanently restricted endowment funds are credited to either unrestricted or temporarily restricted net assets, unless otherwise stipulated by the donor. The \$16.7 million (as adjusted for appreciation/depreciation) should have been previously reclassified in fiscal year 1997 when the Ohio Uniform Management of Institutional Funds Act ("UMIFA") was revised.

*Foundation's Response:* The Foundation did not record the reclassification of amounts from permanently restricted to unrestricted/temporarily restricted net assets in 1997 based on the Foundation's interpretation of the 1997 and 1996 UMIFA law. The Foundation makes every effort to properly interpret laws that have impact on the Foundation's financial statements.

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

### **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*.

We noted certain matters that we have reported to management of the Foundation in a separate letter dated October 14, 2009.

The Foundation's response to the significant deficiency identified in our audit is described above. We did not audit the Foundation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, 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.



Cincinnati, Ohio  
October 14, 2009





**Mary Taylor, CPA**  
Auditor of State

**THE 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 12, 2009**