

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

The University of Cincinnati Foundation

June 30, 2020 and 2019

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of The University of Cincinnati Foundation, Hamilton County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The University of Cincinnati Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 9, 2020

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Independent Auditor's Report

To the Board of Trustees
The University of Cincinnati Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Cincinnati Foundation as of June 30, 2020 and 2019 and the change in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note H to the consolidated financial statements, the Foundation has investments valued at approximately \$422,620,000 (73 percent of net assets) and \$416,306,000 (72 percent of net assets) as of June 30, 2020 and 2019, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the University of Cincinnati. Our opinion is not modified with respect to this matter.

To the Board of Trustees
The University of Cincinnati Foundation

Other Matter

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedule of activities - net assets without donor restrictions is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2020 on our consideration of The University of Cincinnati Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering The University of Cincinnati Foundation's internal control over financial reporting and compliance.



September 24, 2020

THE UNIVERSITY OF CINCINNATI FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,087,633	\$ 11,475,521
Due from University of Cincinnati	1,380,154	1,114,909
Due from UC Health Foundation	355,607	785,930
Accrued interest receivable	803,385	1,052,319
Stock proceeds receivable	22,670	10,726
Prepaid expenses	366,714	322,802
Pledges receivable, net of allowance	97,053,922	98,893,052
Trusts held by others	13,506,778	14,091,947
Cash surrender value of life insurance policies	522,969	657,182
Other	2,097,797	794,880
Investments:		
Mutual funds	26,355,998	26,121,290
Common stocks	13,106,936	13,017,272
Cash equivalents	5,392,765	3,754,379
Corporate bonds	8,235,156	8,762,690
U.S. Government and agency obligations	5,863,533	5,508,277
Real estate and other	16,067,615	5,372,615
University pooled investments	406,552,650	410,851,034
Total investments	<u>481,574,653</u>	<u>473,387,557</u>
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$1,511,925 in 2020 and \$1,464,712 in 2019	311,904	307,156
Equipment and software, net of accumulated depreciation of \$5,758,705 in 2020 and \$4,977,424 in 2019	<u>241,512</u>	<u>1,293,917</u>
	<u>\$ 616,325,698</u>	<u>\$ 604,187,898</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,538,128	\$ 871,210
Note payable	2,938,800	-
Accrued liabilities	853,769	1,202,191
Accrued compensated absences	1,102,532	921,471
Agency payable	16,280,593	8,954,059
Trusts held for the benefit of others	2,203,054	1,961,014
Refundable deposits	852,814	816,737
Accrued interest income due to investment pool	401,625	501,238
Present value of annuities payable	<u>9,386,911</u>	<u>8,298,629</u>
TOTAL LIABILITIES	<u>35,558,226</u>	<u>23,526,549</u>
NET ASSETS		
Without donor restrictions	19,207,775	18,912,192
With donor restrictions	<u>561,559,697</u>	<u>561,749,157</u>
TOTAL NET ASSETS	<u>580,767,472</u>	<u>580,661,349</u>
	<u>\$ 616,325,698</u>	<u>\$ 604,187,898</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other additions:			
Contributions:			
University	\$ 204,733	70,173,724	70,378,457
Foundation	253,625	-	253,625
University fee	14,876,660	13,852	14,890,512
UC Health Foundation fee	2,549,540	-	2,549,540
Assessment fee	10,422,904	-	10,422,904
Change in value of split interest agreements	14,361	(9,530)	4,831
Other income	298,847	396,159	695,006
Investment income:			
Dividend and interest income	344,159	8,244,157	8,588,316
Net unrealized and realized losses	(172,708)	(11,886,463)	(12,059,171)
Pledge loss	-	(5,779,006)	(5,779,006)
Net assets released from restrictions - satisfaction of donor restrictions	60,339,888	(60,339,888)	-
Total revenues and other additions	<u>89,132,009</u>	<u>813,005</u>	<u>89,945,014</u>
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	54,699,883	-	54,699,883
Alumni experience	3,261,487	-	3,261,487
Assessment fee	4,894,391	-	4,894,391
Total program activities	<u>62,855,761</u>	<u>-</u>	<u>62,855,761</u>
Supporting services:			
Management and general	4,279,964	-	4,279,964
Fundraising	21,700,701	-	21,700,701
Total support services	<u>25,980,665</u>	<u>-</u>	<u>25,980,665</u>
Total expenses	<u>88,836,426</u>	<u>-</u>	<u>88,836,426</u>
Change in present value of annuities payable	-	1,002,465	1,002,465
Total expenses and other deductions	<u>88,836,426</u>	<u>1,002,465</u>	<u>89,838,891</u>
Increase (decrease) in net assets	295,583	(189,460)	106,123
Net assets at beginning of year	18,912,192	561,749,157	580,661,349
Net assets at end of year	<u>\$ 19,207,775</u>	<u>\$ 561,559,697</u>	<u>\$ 580,767,472</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other additions:			
Contributions:			
University	\$ 267,601	66,063,439	\$ 66,331,040
Foundation	272,616	-	272,616
University fee	16,047,272	20,751	16,068,023
UC Health Foundation fee	2,367,642	-	2,367,642
Assessment fee	10,113,614	-	10,113,614
Change in value of split interest agreements	19,662	477,330	496,992
Other income	423,082	836,213	1,259,295
Investment income:			-
Dividend and interest income	367,741	10,298,264	10,666,005
Net unrealized and realized gains	52,981	13,485,463	13,538,444
Pledge loss	-	(251,288)	(251,288)
Net assets released from restrictions - satisfaction of donor restrictions	57,876,571	(57,876,571)	-
Total revenues and other additions	<u>87,808,782</u>	<u>33,053,601</u>	<u>120,862,383</u>
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	52,546,243	-	52,546,243
Alumni experience	3,576,404	-	3,576,404
Assessment fee	4,906,918	-	4,906,918
Total program activities	<u>61,029,565</u>	<u>-</u>	<u>61,029,565</u>
Supporting services:			
Management and general	4,166,771	-	4,166,771
Fundraising	21,717,526	-	21,717,526
Total support services	<u>25,884,297</u>	<u>-</u>	<u>25,884,297</u>
Total expenses	<u>86,913,862</u>	<u>-</u>	<u>86,913,862</u>
Change in present value of annuities payable	-	(59,780)	(59,780)
Total expenses and other deductions	<u>86,913,862</u>	<u>(59,780)</u>	<u>86,854,082</u>
Increase in net assets	894,920	33,113,381	34,008,301
Net assets at beginning of year	18,017,272	528,635,776	546,653,048
Net assets at end of year	<u>\$ 18,912,192</u>	<u>\$ 561,749,157</u>	<u>\$ 580,661,349</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30, 2020 and 2019

2020						
	Program Activities			Management and General	Fundraising	Total
	University Support	Alumni Experience	Program Subtotal			
Distributions to University of Cincinnati	\$ 54,699,883	-	54,699,883	-	-	54,699,883
Assessment fee	4,894,391	-	4,894,391	-	-	4,894,391
Salaries and benefits	-	2,157,047	2,157,047	3,021,927	14,339,512	19,518,486
Promotional materials and events	-	362,814	362,814	16,729	2,215,906	2,595,449
Professional services	-	55,772	55,772	622,187	1,036,106	1,714,065
Information technologies	-	30,080	30,080	216,938	1,039,396	1,286,414
Depreciation and amortization	-	130,276	130,276	160,862	798,844	1,089,982
Occupancy	-	249,211	249,211	68,595	453,868	771,674
Miscellaneous	-	74,140	74,140	19,448	266,195	359,783
Direct marketing	-	34,904	34,904	9,237	601,009	645,150
Travel	-	35,906	35,906	5,832	316,593	358,331
Business meetings, dues, recruitment	-	67,193	67,193	119,233	176,702	363,128
Cultivation	-	14,358	14,358	3,065	296,593	314,016
Resource materials, postage and supplies	-	49,786	49,786	15,911	159,977	225,674
	\$ 59,594,274	3,261,487	62,855,761	4,279,964	21,700,701	88,836,426
2019						
	Program Activities			Management and General	Fundraising	Total
	University Support	Alumni Experience	Program Subtotal			
Distributions to University of Cincinnati	\$ 52,546,243	\$ -	\$ 52,546,243	\$ -	\$ -	\$ 52,546,243
Assessment fee	4,906,918	-	4,906,918	-	-	4,906,918
Salaries and benefits	-	2,074,446	2,074,446	2,930,966	13,481,078	18,486,490
Promotional materials and events	-	712,502	712,502	60,761	2,524,658	3,297,921
Professional services	-	63,606	63,606	499,977	1,346,852	1,910,435
Information technologies	-	60,121	60,121	170,234	1,132,603	1,362,958
Depreciation and amortization	-	124,102	124,102	161,385	838,081	1,123,568
Occupancy	-	253,417	253,417	70,324	450,576	774,317
Miscellaneous	-	99,183	99,183	34,837	460,456	594,476
Direct marketing	-	29,902	29,902	2,349	486,770	519,021
Travel	-	51,271	51,271	7,485	419,837	478,593
Business meetings, dues, recruitment	-	68,093	68,093	146,318	248,312	462,723
Cultivation	-	20,021	20,021	53,015	198,677	271,713
Resource materials, postage and supplies	-	19,740	19,740	29,120	129,626	178,486
	\$ 57,453,161	\$ 3,576,404	\$ 61,029,565	\$ 4,166,771	\$ 21,717,526	\$ 86,913,862

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities:		
Payments to the University of Cincinnati	\$ (54,999,955)	\$ (52,390,286)
University fees, assessment fees and other	22,289,166	24,263,672
Cash paid for compensation	(19,516,412)	(18,235,520)
Cash received for gifts	52,708,106	41,276,119
Investment income available for distribution	8,097,711	9,865,066
Cash paid for operating expenses	(7,743,090)	(9,615,069)
Net cash provided by (used in) operating activities	<u>835,526</u>	<u>(4,836,018)</u>
Investing activities:		
Proceeds from sale of investments	32,233,698	26,576,779
Purchase of investments	(51,889,965)	(47,167,951)
Purchase of property and equipment	(42,324)	(365,371)
Net cash used in investing activities	<u>(19,698,591)</u>	<u>(20,956,543)</u>
Financing activities:		
Proceeds from contributions to endowment and similar funds	21,796,837	24,937,661
Investment income restricted for reinvestment	739,540	588,570
Proceeds from note payable	2,938,800	-
Net cash provided by financing activities	<u>25,475,177</u>	<u>25,526,231</u>
Net increase (decrease) in cash and cash equivalents	6,612,112	(266,330)
Cash and cash equivalents, beginning of year	<u>11,475,521</u>	<u>11,741,851</u>
Cash and cash equivalents, end of year	<u>\$ 18,087,633</u>	<u>\$ 11,475,521</u>
Significant Noncash Transactions:		
Property received as agency transaction	\$ 10,800,000	\$ -

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

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – DESCRIPTION OF ORGANIZATION

The University of Cincinnati Foundation (the Foundation) is a not-for-profit organization that operates 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 the benefit of the University. The Foundation also provides executive, administrative and fund raising services to the UC Health Foundation (UCHF), with contributions being treated as agency transactions.

The Foundation is the single member of two limited liability companies, UCF Real Estate, LLC and UCF Holdings, LLC. UCF Real Estate, LLC is used primarily to receive and hold donated real estate property for the Foundation. UCF Holdings, LLC is used by the Foundation from time to time to primarily acquire and hold non-donated real estate property.

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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the organization.

Net assets with donor restriction – Net assets subject to donor-imposed stipulations. Some are temporary in nature and may or will be met either by actions of the Foundation and/or the passage of time. Other donor restrictions are perpetual in nature and 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 2020, the Foundation released approximately \$60,340,000 in restricted assets (\$6,228,000 for operations, maintenance, plant, \$29,313,000 for college programs, \$2,945,000 for instruction, \$1,993,000 for auxiliary, \$9,748,000 for scholarship, \$1,649,000 for academic support, \$6,377,000 for research and \$2,087,000 for other). In 2019, the Foundation released approximately \$57,877,000 in restricted assets (\$3,856,000 for operations, maintenance, plant, \$31,411,000 for college programs, \$3,203,000 for instruction, \$1,031,000 for auxiliary, \$9,679,000 for scholarship, \$2,128,000 for academic support, \$4,858,000 for research and \$1,711,000 for other).

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Basis of Presentation (continued)

Contributions received by the Foundation for the benefit of the University are classified as University contributions on the accompanying Consolidated Statements of Activities. Revenues from sources other than contributions are reported as increases in net assets without donor restriction 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 net assets without donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets release from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

The Foundation reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports the expiration of donor restrictions when the assets are placed in service.

Occasionally, the Foundation receives modifications or clarifications to gift agreements or pledges made in previous years. These modifications and clarifications are reviewed by Foundation management for approval, and once approved, may result in a reclassification among net asset classes or a pledge loss if the donor specifies a beneficiary other than the Foundation or the University. No such modifications or clarifications occurred during the years ended June 30, 2020 or 2019.

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. Unconditional promises to give of \$10,000 or more, and more than one year old, are evaluated annually for collectability. An appropriate reserve for each pledge is established based on the evaluation. Pledges of this size are not written off without senior management approval. Unconditional promises to give of less than \$10,000, expected to be satisfied by multiple payments, are generally completely reserved once twelve months have elapsed from receipt of the last pledge payment. These pledges are written off once the development officer assigned to the donor believes that further collection efforts will not be successful. Finally, unconditional promises to give arising from Telefund and other annual giving programs are generally written off to pledge loss once the donor has failed to respond to eleven consecutive monthly pledge reminders.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Basis of Presentation (continued)

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

2. Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2020, and 2019, approximately \$17,837,000 and \$13,451,000 respectively, of cash and cash equivalents were in excess of federally insured limits. The overnight funds were collateralized by U.S. government backed securities. Cash equivalents are carried at amortized cost, and mature in 90 days or less.

3. Custodial Credit Risk of Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation believes that due to the dollar amounts of cash deposits (see disclosure of cash equivalents in excess of FDIC insured limits in Note B) and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Foundation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

4. Investment Securities

The Foundation's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

5. Property and Equipment

Property and equipment are recorded at cost (or fair 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, five years for software and ten years for leasehold improvements. 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 UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Agency Transactions (continued)

The amount of assets that are due to other third party organizations is recorded as a payable of approximately \$16,281,000 and \$8,954,000 at June 30, 2020 and 2019, 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.

The Foundation evaluates its uncertain tax positions as to whether it is more likely than not a tax position could be sustained in the event of an audit by the applicable taxing authority. Accordingly, a loss contingency is recognized 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. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Open tax years for the Foundation include 2019, 2018 and 2017. As of June 30, 2020 and 2019, the Foundation has no assets or liabilities recorded related to uncertain tax positions.

8. Self-Insurance

The Foundation has a self-insured medical plan, beginning in FY2020, covering all of its eligible employees. The Foundation's individual excess risk benefit level per employee for 2020 was \$100,000, with total exposure limited to approximately \$1,745,000. Losses in excess of these limitations are covered by reinsurance. Amounts expensed by the Foundation under the plan were approximately \$1,802,000 for 2020. The Foundation has recorded an accrual of approximately \$264,000 at June 30, 2020, for known claims and estimated claims incurred but not reported.

9. 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.

10. 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 CONSOLIDATED FINANCIAL STATEMENTS

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. 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 Foundation uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Foundation may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

12. Functional Reporting of Expenses

The Foundation was created to provide support to the University. The cost of providing program and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. The consolidated financial statements report certain expense categories that are attributable to more than one program or supporting function: therefore, these expenses require allocation on a reasonable basis that is consistently applied.

All expenses, except for Distributions to University of Cincinnati and Assessment fee, included in the accompanying consolidated statement of functional expenses are allocated based on the related function or full time equivalents, which include employees and departments that cross over multiple functions (program, management and general, and fundraising). The Assessment Fee included in the functional expense schedule is assessed on those endowments where the Foundation is the Trustee. The fee is assessed on the distributions sent to the University, which are used in accordance with the specific funds' purpose and restrictions. Therefore, the Assessment Fee is considered a program function.

13. Operating Expenses

All activities directly related to the ongoing operations of the Foundation are summarized on a functional basis on the accompanying Consolidated Statements of Activities. All other activities are classified as non-operating, which includes change in present value of annuities (Note O).

14. Basis of Consolidation

All significant intercompany transactions and balances have been eliminated in consolidation.

15. Availability and Liquidity

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish donor restricted endowments; the income generated from such endowments to be used in accordance with the associated purpose restrictions. In addition, the Foundation receives support without donor restriction from the University of Cincinnati, UC Health Foundation, assessment fees on current use and endowment funds, and

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Availability and Liquidity (continued)

temporary investment income on current use gifts to provide the majority of funding for annual operations.

The Foundation manages its cash available to meet general expenditures by operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets and maintaining sufficient reserves to provide reasonable assurance that long term commitments, and obligations that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

General expenditures include administrative, general, and fundraising expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The table below presents financial assets available for general expenditures within one year at June 30, 2020:

Financial assets at year-end:	
Cash and cash equivalents	\$ 18,087,633
Due from University of Cincinnati	1,380,154
Due from UC Health Foundation	355,607
Accrued interest receivable	803,385
Stock proceeds receivable	22,670
Pledges receivable	97,053,922
Investments	<u>465,507,038</u>
Total financial assets	\$ <u>583,210,409</u>

Less amounts not available to be used within one year
and / or assets restricted for donor purpose and board restricted:

Donor restricted:	
Cash and cash equivalents	\$ (7,136,499)
Accrued interest receivable	(687,359)
Stock proceeds receivable	(22,670)
Pledges receivable	(97,053,922)
Investments	<u>(463,696,806)</u>
Total	\$ <u>(568,597,256)</u>

Board restricted:	
Investments	\$ <u>(1,810,232)</u>
Total	\$ <u>(1,810,232)</u>

Financial assets available to meet general expenditures \$ 12,802,921

THE UNIVERSITY OF CINCINNATI FOUNDATION
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June 30, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Availability and Liquidity (continued)

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 11,475,521
Due from University of Cincinnati	1,114,909
Due from UC Health Foundation	785,930
Accrued interest receivable	1,052,319
Stock proceeds receivable	10,726
Pledges receivable	98,893,052
Investments	<u>468,119,942</u>
Total financial assets	\$ <u>581,452,399</u>

Less amounts not available to be used within one year
and / or assets restricted for donor purpose and board restricted:

Donor restricted:	
Cash and cash equivalents	\$ (3,299,081)
Accrued interest receivable	(952,348)
Stock proceeds receivable	(10,726)
Pledges receivable	(98,893,052)
Investments	<u>(465,505,669)</u>
Total	\$ <u>(568,660,876)</u>

Board restricted:	
Investments	\$ <u>(2,216,155)</u>
Total	\$ <u>(2,216,155)</u>

Financial assets available to meet general expenditures \$ 10,575,368

The Foundation maintained reserves to cover two and a half and two months of operating expenditures, reserves, allocated to balance that fiscal year's budget and reserves for unanticipated strategic needs at June 30, 2020, and 2019, respectively. The June 30, 2019 reserves also include an allocation of reserves for the UC Bicentennial celebration that occurred in fiscal year 2020. Any allocation of reserves is reviewed and approved as part of the budgetary process. Spending of reserves outside of the budgetary process require additional internal review and approvals, as well as applicable board or committee approvals.

THE UNIVERSITY OF CINCINNATI FOUNDATION
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June 30, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

16. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a pandemic, now known as COVID-19. In response to the COVID-19 pandemic, governments have taken preventative or protective actions, such as temporary closures of non-essential businesses and “shelter-at-home” guidelines for individuals. As a result, the global economy has been negatively affected, and the Foundation’s operations were also impacted.

On April 20, 2020, the Foundation received a Paycheck Protection Program term note through one of its primary banks of approximately \$2,939,000. The note was issued pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program. The note structure required Foundation officials to certify certain statements that permitted the Foundation to qualify for the loan and provides loan forgiveness for a portion up to all of the borrowed amount if the Foundation uses the loan proceeds for the permitted loan purpose described in the note agreement; the portion not forgiven will require the Foundation to pay back this amount in full by April, 2022; under 18 equal monthly principal installment payments beginning on November 1, 2020, with interest at 1.00 percent. The Foundation has the right to prepay any amount outstanding at any time without penalty. At June 30, 2020, the amount outstanding on the term note was \$2,938,800 and accrued interest of \$5,801.

The severity of the continued impact due to COVID-19 on the Foundation’s financial condition, results of operations or cash flows will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Foundation’s community, all of which are uncertain and cannot be predicted. No impairments were recorded as of June 30, 2020; however, due to significant uncertainty surrounding the situation, management’s judgment regarding this could change in the future.

17. New Accounting Pronouncements

As of July 1, 2019, the Foundation adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Foundation adopted the new standard on a modified prospective basis and there was no impact to the recognition of contribution and grant agreements. The standard did not require a restatement of prior year.

18. Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

18. Upcoming Accounting Pronouncements (continued)

exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Foundation's primary revenue sources are not expected to be significantly impacted by the standard; however, a complete review of all revenue sources has not yet been completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement. The new guidance will be effective for the Foundation's year ending June 30, 2021.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending June 30, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The ASU will increase short and long-term assets and liabilities upon adoption. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

NOTE C – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
College programs	\$ 267,141,213	\$ 277,946,832
Capital projects	13,249,678	16,808,675
Scholarships	142,000,949	124,428,080
Instruction	42,953,821	44,058,752
Academic support	38,610,826	40,375,822
Research	28,973,796	33,302,635
Annuity and life income funds	6,066,493	6,542,673
Auxiliary	13,418,728	10,007,018
Other	<u>9,144,193</u>	<u>8,278,670</u>
Total net assets with donor restrictions	<u>\$ 561,559,697</u>	<u>\$ 561,749,157</u>

Endowment funds included in net assets with donor restrictions are \$443,084,238 and \$446,322,505 as of June 30, 2020 and 2019, respectively. See Note F for more information on endowment funds.

THE UNIVERSITY OF CINCINNATI FOUNDATION
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June 30, 2020 and 2019

NOTE D – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions were as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 16,777,697	\$ 16,297,483
Board designated	<u>2,430,078</u>	<u>2,614,709</u>
Total net assets without donor restrictions	<u>\$ 19,207,775</u>	<u>\$ 18,912,192</u>

Endowment funds included in net assets without donor restrictions are \$2,430,078 and \$2,614,709 as of June 30, 2020 and 2019, respectively. See Note F for more information on endowment funds.

NOTE E – PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately \$111,729,000 and \$111,538,000 as of June 30, 2020 and 2019, respectively. For payments that extend beyond one year, these pledges receivable have been discounted at rates ranging from 0.8% to 6.0% to a net present value of approximately \$103,264,000 and \$102,138,000 as of June 30, 2020 and 2019, respectively.

As of June 30, the unpaid pledges are due as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 33,453,606	\$ 31,586,539
One to five years	46,608,934	44,447,177
More than five years	<u>31,666,301</u>	<u>35,503,843</u>
	111,728,841	111,537,559
Less discount to present value	(8,464,819)	(9,399,907)
Less allowance for uncollectible pledges	<u>(6,210,100)</u>	<u>(3,244,600)</u>
	<u>\$ 97,053,922</u>	<u>\$ 98,893,052</u>

The Foundation records unconditional promises to give at fair value on the date the promise to give is received using the expected present value technique (“EPV”). EPV calculates present value by discounting risk-adjusted expected cash flows using a risk-free interest rate (yield to maturity on U.S. Treasuries representing the average pledge term). Amortization of the discount is recorded as additional contribution revenue.

Amounts due from irrevocable bequests, which are unconditional promises to give, as of June 30, 2020 and 2019 are approximately \$17,176,000 and \$17,163,000 respectively. The irrevocable bequests are included in total amount of unconditional pledges due and fall within the due in more than five years category. The allowance for uncollectible pledges includes approximately \$130,000 and \$128,000 associated with the irrevocable bequests, as of June 30, 2020 and 2019, respectively.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE E – PLEDGES RECEIVABLE (continued)

As of June 30, 2020, twenty-one donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2020, 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 \$8,953,000 as of June 30, 2020. There were twenty donors with outstanding conditional pledges as of June 30, 2019. The net present value of the conditional pledges at June 30, 2019 was approximately \$8,984,000.

NOTE F – ENDOWMENT FUNDS

Endowment assets are invested in a manner consistent with statutory fiduciary responsibilities and policies adopted by the Foundation's Board of Trustees. The primary objective is to produce long-term real growth in assets, net of administrative and investment fees, by generating a total endowment rate of return which is greater than the spending rate plus the Consumer Price Index. Strategies to achieve the primary objective at a prudent level of risk include: (a) diversification of assets among various classes; (b) diversification of investment styles within asset class; and (c) ongoing review of investment manager performance with respect to rate of return, adherence to investment style and compliance with investment guidelines.

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 Trustees to function as endowments, are classified and reported based on the absence or existence of donor-imposed restrictions.

The Board of Trustees has interpreted the state of Ohio's 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 donor-restricted endowment funds are credited to net assets with donor restrictions. Financial assets are to be invested in a manner consistent with statutory fiduciary responsibilities and policies adopted by the Foundation's Board of Trustees.

There are 1,321 and 1,252 endowment funds, at June 30, 2020 and 2019, respectively.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. Deficiencies of this nature exist in 1,082 donor-restricted endowment funds, which together have an original gift value of \$385,595,270, a current fair value of \$333,978,561, and a deficiency of (\$51,616,709) as of June 30, 2020. Deficiencies of this nature exist in 649 donor-restricted endowment funds, which together have an original

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE F – ENDOWMENT FUNDS (continued)

gift value of \$206,224,337, a current fair value of \$179,634,036, and a deficiency of (\$26,590,301) as of June 30, 2019. The Foundation is also funded by a fee assessed on certain endowment funds held by the University and the Foundation, which also falls under UPMIFA. See Note N for more information.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income. The spending rate was 4.4% and 4.5% in fiscal years 2020 and 2019, respectively, of the moving average market value for the twelve-quarter period ended each December. Earnings above the spend rate limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2020 and 2019, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$13,302,000 and \$10,225,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2020 and 2019.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE F – ENDOWMENT FUNDS (continued)

The endowment net asset composition by type of fund as of June 30, 2020, was as follows:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds:			
Original amount	\$ -	\$ 419,694,788	419,694,788
Accumulated losses	-	(13,276,596)	(13,276,596)
Term endowments	-	36,666,046	36,666,046
Board designated endowment funds	2,430,078	-	2,430,078
Total	<u>\$ 2,430,078</u>	<u>\$ 443,084,238</u>	<u>\$ 445,514,316</u>

The change in endowment fund net assets for the year ended June 30, 2020, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,614,709	446,322,505	448,937,214
Investment income:			
Interest and dividend income	111,540	8,060,020	8,171,560
Net realized /unrealized losses	(48,143)	(12,426,549)	(12,474,692)
Total investment income	63,397	(4,366,529)	(4,303,132)
Contributions and other transfers	-	21,796,837	21,796,837
Appropriation of endowment assets for expenditure	(251,677)	(22,092,333)	(22,344,010)
Other changes:			
Other income	-	565,093	565,093
Income reinvestment	3,649	858,665	862,314
Endowment net assets, end of year	<u>\$ 2,430,078</u>	<u>\$ 443,084,238</u>	<u>\$ 445,514,316</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
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NOTE F – ENDOWMENT FUNDS (continued)

The endowment net asset composition by type of fund as of June 30, 2019, was as follows:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds:			
Original amount	\$ -	\$ 396,798,331	\$ 396,798,331
Accumulated gains	-	10,256,989	10,256,989
Term endowments	-	39,267,185	39,267,185
Board designated endowment funds	<u>2,614,709</u>	<u>-</u>	<u>2,614,709</u>
Total	<u>\$ 2,614,709</u>	<u>\$ 446,322,505</u>	<u>\$ 448,937,214</u>

The change in endowment fund net assets for the year ended June 30, 2019, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,609,896	\$ 418,187,325	\$ 420,797,221
Investment income:			
Interest and dividend income	137,470	9,875,064	10,012,534
Net realized /unrealized gains	<u>115,989</u>	<u>12,730,473</u>	<u>12,846,462</u>
Total investment income	253,459	22,605,537	22,858,996
Contributions and other transfers	-	24,937,661	24,937,661
Appropriation of endowment assets for expenditure	(252,194)	(20,792,306)	(21,044,500)
Other changes:	-	-	-
Other income	-	713,010	713,010
Income reinvestment	<u>3,548</u>	<u>671,278</u>	<u>674,826</u>
Endowment net assets, end of year	<u>\$ 2,614,709</u>	<u>\$ 446,322,505</u>	<u>\$ 448,937,214</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE G – INVESTMENTS

The Foundation combines its pooled investment securities with the investment pool of the University in order 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 investment pool consists of Fund A and Fund C. In July 2016, Fund C was created by segregating each share of Fund A into one share of Fund A, which owns the diversified portfolio of investment funds in separate accounts, in one share of Fund C, which owns neighborhood development corporation loans (“NDCLs”) and strategic real estate. As NDCLs and strategic real estate produce distributions to Fund C unitholders, the proceeds will be used to periodically purchase newly-created Fund A units for the Fund C unitholders. No additional assets will be purchased within Fund C. It is expected that Fund C will cease to exist in approximately FY2040 as the last distributions are made from NDCLs. As of June 30, 2020, and 2019, the University is holding approximately \$2,033,000 and \$857,000, respectively, that is to be invested in the University pooled investments. These amounts are recorded as cash equivalents in the accompanying Consolidated Statements of Financial Position.

The Foundation also manages other investments, which amounted to approximately \$72,989,000 and \$61,680,000 as of June 30, 2020 and 2019, 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, 2020 and 2019:

	<u>2020</u>	<u>2020</u>	<u>2019</u>	<u>2019</u>
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash equivalents	\$ 5,392,765	\$ 5,378,563	\$ 3,754,379	\$ 3,752,889
U.S. Government and agency obligations	5,863,533	5,485,853	5,508,277	5,369,756
Corporate bonds	8,235,156	7,960,401	8,762,690	8,749,118
Mutual funds	26,355,998	21,207,038	26,121,290	22,238,406
Common stocks and ETF	13,106,936	9,707,989	13,017,272	9,643,036
Real estate and other	16,067,615	16,067,615	5,372,615	5,372,615
University pooled investments	<u>406,552,650</u>	<u>450,566,123</u>	<u>410,851,034</u>	<u>423,032,406</u>
Total	<u>\$ 481,574,653</u>	<u>\$ 516,373,582</u>	<u>\$ 473,387,557</u>	<u>\$ 478,158,226</u>

The number of units in Fund A owned by the Foundation totaled 5,444,752 and 5,062,422, which represents 39.5% and 38.8% share of the Fund A pool, as of June 30, 2020 and 2019, respectively. Fund A 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 Foundation owned 3,968,064 shares

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE G – INVESTMENTS (continued)

which represents 36.1% share of the C pool, as of June 30, 2020 and 2019. The C 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 pooled investments are stated at fair value, as provided by the investment managers. Audited financial statements of the underlying investments in the University pooled investments as of June 30, 2020 and 2019, 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, 2020 and 2019. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2020 and 2019. Certain underlying investments in the University pooled investments 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 University pooled investments as of June 30 are as follows:

	2020	2019
Fund A		
U.S. and international equity securities	40%	47%
Hedge funds and private equity capital	40	32
Fixed income securities	13	14
Fund C		
Real estate and community development	7	7
Total	100%	100%

NOTE H – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements and disclosures are based on a three level hierarchy as follows:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date.

Level 2 Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; other-than-quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs are unobservable and significant to the fair value measurement.

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June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Financial instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or level 1 inputs) include publicly-traded common stock, mutual funds, and certain corporate bonds. Financial instruments measured at fair value using inputs based on quoted market prices for similar instruments in active markets (or level 2 inputs) include certain common stock, U.S. Government and agency obligations and certain corporate bonds. U. S. Government and agency obligations are priced using auction data or yield curve analysis. Corporate bonds are priced using trading data if available, or when trading data is unavailable, pricing models, matrix pricing, or discounted cash flows using inputs such as weighted-average coupon rate, weighted-average maturity, and consideration of credit ratings.

Financial instruments measured at fair value using inputs based on quoted prices for identical assets in inactive markets (or level 2 inputs) include certain equity investments in privately-held corporations. The Foundation also invests in the University pooled investments which are stated at fair value using primarily the net asset value of the underlying investments. For those investments in the pool where pricing information is not available as of the measurement date, the fair value is determined based on information as of an interim date, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by the Foundation's management. These fair value instruments are measured at fair value on a recurring basis using significant unobservable inputs (or level 3 inputs).

Trusts held by others include the Foundation's beneficial interest in trusts held by other trustees. The Foundation calculates the fair value of these trusts using the investment statement from the trustee at the balance sheet date, adjusting the balance for projected future investment income at a rate based on historical returns for each trust's mix of assets. The projected future income is then discounted back to the balance sheet date using a discount rate commensurate with the risks involved. The trusts primarily consist of common stock, mutual funds, corporate bonds and other fixed income obligations. Due to the assumptions involved in determining the fair value, these trusts are classified as level 3 in the fair value hierarchy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the accompanying Consolidated Statements of Financial Position at June 30, 2020:

	Balance at June 30, 2020	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Investments:				
Common stock:				
Consumer	\$ 2,671,749	\$ 2,671,749	-	-
Health care	1,799,305	1,799,305	-	-
Financial	2,667,166	2,667,166	-	-
Technology	3,027,847	3,027,847	-	-
Materials	422,570	422,570	-	-
Energy	484,862	484,862	-	-
Industrial	1,342,560	1,342,560	-	-
Utilities	47,258	47,258	-	-
Telecommunication	360,455	360,455	-	-
Other	283,164	283,164	-	-
Total common stocks	<u>13,106,936</u>	<u>13,106,936</u>	-	-
Mutual funds:				
Fixed	9,273,994	9,273,994	-	-
Value	3,202,868	3,202,868	-	-
Growth	1,446,316	1,446,316	-	-
Index	612,201	612,201	-	-
Blended	11,500,400	11,500,400	-	-
Other	320,219	320,219	-	-
Total mutual funds	<u>26,355,998</u>	<u>26,355,998</u>	-	-
Corporate bonds	8,235,156	-	8,235,156	-
U.S. Government and agency obligations	5,863,533	-	5,863,533	-
University pooled investments	406,552,650	-	-	406,552,650
Real estate and other	16,067,615	-	-	16,067,615
Total investments at fair value	<u>\$ 481,574,653</u>	<u>39,462,934</u>	<u>\$ 14,098,689</u>	<u>422,620,265</u>
Trusts held by others	<u>\$ 13,506,778</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 13,506,778</u>
Liabilities				
Trusts held for the benefit of others	<u>\$ 2,203,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,203,054</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the accompanying Consolidated Statements of Financial Position at June 30, 2019:

	Balance at June 30, 2019	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Investments:				
Common stock:				
Consumer	\$ 2,376,159	\$ 2,376,159	\$ -	\$ -
Health care	1,815,685	1,815,685	-	-
Financial	3,293,681	3,293,681	-	-
Technology	1,896,227	1,896,227	-	-
Materials	488,328	488,328	-	-
Energy	822,281	822,281	-	-
Industrial	1,561,489	1,561,489	-	-
Utilities	295,681	295,681	-	-
Telecommunication	338,245	338,245	-	-
Other	129,496	46,996	-	82,500
Total common stocks	<u>13,017,272</u>	<u>12,934,772</u>	-	<u>82,500</u>
Mutual funds:				
Fixed	9,444,658	9,444,658	-	-
Value	3,182,741	3,182,741	-	-
Growth	1,283,177	1,283,177	-	-
Index	752,825	752,825	-	-
Blended	10,897,269	10,897,269	-	-
Other	560,620	560,620	-	-
Total mutual funds	<u>26,121,290</u>	<u>26,121,290</u>	-	-
Corporate bonds	8,762,690	-	8,762,690	-
U.S. Government and agency obligations	5,508,277	-	5,508,277	-
University pooled investments	410,851,034	-	-	410,851,034
Real estate and other	5,372,615	-	-	5,372,615
Total investments at fair value	<u>\$ 469,633,178</u>	<u>\$ 39,056,062</u>	<u>\$ 14,270,967</u>	<u>\$ 416,306,149</u>
Trusts held by others	<u>\$ 14,091,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,091,947</u>
Liabilities				
Trusts held for the benefit of others	<u>\$ 1,961,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,961,014</u>

The Foundation's investments in cash equivalents are carried at amortized cost. These investments do not qualify as securities as defined in FASB ASC 320, *Investments – Debt and Equity Securities*, thus the fair value

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

disclosures required by US GAAP are not provided. Cash equivalents at June 30, 2020 and 2019, are \$5,392,765 and \$3,754,379 and are included in investments on the accompanying Consolidated Statements of Financial Position.

Net unrealized and realized (losses) gains related to these fair value instruments total approximately (\$12,059,000) and \$13,538,000 as of June 30, 2020 and 2019, respectively, and are included in net unrealized and realized gains (losses) 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 level 3 financial instruments for the year ended June 30, 2020, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others	Real estate and other
Beginning balance	\$ 410,851,034	\$ 14,091,947	\$ 1,961,014	\$ 5,372,615
Purchases and contributions	22,482,849	-	410,666	11,050,000
Interest and dividend income	3,875,247	-	90,447	-
Reinvested income	5,823,341	-	7,045	-
Liquidations	(17,743,258)	(590,000)	(90,447)	(367,500)
Net unrealized and realized (losses) gains	<u>(18,736,563)</u>	<u>4,831</u>	<u>(175,671)</u>	<u>12,500</u>
Ending balance	<u>\$ 406,552,650</u>	<u>\$ 13,506,778</u>	<u>\$ 2,203,054</u>	<u>\$ 16,067,615</u>

In fiscal year 2020, the Foundation received property of approximately \$10,800,000 that was recorded as an agency transaction and recorded within purchases and contributions in the table above. As of September 24, 2020, the property is being actively marketed for sale.

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2019, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others	Real estate and other
Beginning balance	\$ 385,327,055	\$ 13,594,955	\$ 1,799,437	\$ 350,000
Purchases and contributions	25,400,421	-	302,575	5,372,615
Interest and dividend income	5,814,940	-	85,571	-
Reinvested income	2,006,128	-	-	-
Liquidations	(17,113,254)	-	(240,721)	(275,000)
Net unrealized and realized gains (losses)	<u>9,415,744</u>	<u>496,992</u>	<u>14,152</u>	<u>(75,000)</u>
Ending balance	<u>\$ 410,851,034</u>	<u>\$ 14,091,947</u>	<u>\$ 1,961,014</u>	<u>\$ 5,372,615</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Gains and losses for these Level 3 fair value instruments are included in net unrealized and realized gains (losses) in the accompanying Consolidated Statements of Activities. The total amount of gains (losses) above included in changes in net assets that is attributable to assets held at June 30, 2020 and 2019 is approximately \$(18,719,000) and \$9,838,000, respectively.

Quantitative information about significant unobservable inputs used in level 3 fair value measurements

The Foundation’s share of University pooled investments is categorized as level 3 in the fair value hierarchy due to several significant unobservable inputs related primarily to loans made to neighborhood development corporations (“NDC”). The remaining investments are categorized as level 1 or level 2 in the fair value hierarchy if active trading data are available for similar or identical financial instruments at or near the balance sheet date, or in the case of hedge funds, the net asset value is provided via annual audited financial statements at or near the balance sheet date, and redemption provisions are not prohibitive. The pool also contains private equity funds, which are categorized as level 3 in the fair value hierarchy due to prohibitive redemption provisions, and are recorded at net asset value based on the most recently available audited financial statements and fund manager information as of March 31, 2020 or 2019, as applicable. NDC loans are stated at the principal amount plus accrued interest less an allowance for loan losses. As of June 30, 2020 and 2019, approximately 48% and 49%, respectively, of the principal and accrued interest was offset by an allowance for loan losses.

The valuation technique, significant unobservable inputs and the ranges of input values for the loan loss reserve are as follows:

<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Expected future cash flows	Future occupancy rates	91% - 100%
	Future operating expenses (as a percentage of total revenue)	32% - 60%

University management obtains current cash flow information from each NDC. Based upon either the expected completion date of construction, or current occupancy rates if the property is actively rented, management then projects the approximate date when principal payments will begin and conclude. If, based upon this analysis, it appears unlikely that the loan principal and accrued interest can be repaid, an increase to the loan loss reserve is recorded.

On an annual basis, the Foundation estimates the fair value of its beneficial interest in trusts held by other trustees. Management obtains trust statements as of the balance sheet date, and calculates the fair value of their beneficial interest based on expected investment returns, and the life expectancies of any other income beneficiaries, discounted at a 6% interest rate. The following table represents the Foundation’s valuation technique, significant unobservable inputs, and ranges of values of those inputs for trusts held by others which are approximately \$13,507,000 and \$14,092,000 at June 30, 2020 and 2019, respectively.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE H – FAIR VALUE MEASUREMENTS (continued)

<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Discounted cash flows	Projected investment income	0% – 8%
	Life expectancy of beneficiaries	4 - 48 years
	Discount rate	6%

Trusts held for the benefit of others are included as a liability on the accompanying June 30, 2020 and 2019 Consolidated Statements of Financial Position. The trusts are stated at fair value, which is an equal and offsetting amount to the trusts' underlying investments that are included in University pooled investments at fair value on the accompanying June 30, 2020 and 2019 Consolidated Statements of Financial Position. As University pooled investments are also categorized as a level 3 financial instrument, the significant unobservable inputs for this investment are disclosed previously in this footnote.

NOTE I – EQUIPMENT AND SOFTWARE

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

	<u>2020</u>	<u>2019</u>
Office equipment	\$ 812,667	\$ 813,147
Software	4,914,951	4,914,951
Automobile	67,013	74,101
Computer equipment	205,586	459,506
Work in process	-	9,636
	<u>6,000,217</u>	<u>6,271,341</u>
Less accumulated depreciation and amortization	(5,758,705)	(4,977,424)
	<u>\$ 241,512</u>	<u>\$ 1,293,917</u>

Amortization and depreciation expenses were approximately \$1,090,000 and \$1,124,000 for the years ended June 30, 2020 and 2019, respectively, and is included in expenses and other deductions in the accompanying Consolidated Statement of Activities.

NOTE J – LEASES

Rental expense for operating leases was \$239,470 for 2020 and 2019. 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.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE J – LEASES (continued)

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

2021		\$	239,470
2022			239,470
2023			239,470
2024			239,470
2025			<u>59,870</u>
Total minimum lease payments		\$	<u>1,017,750</u>

NOTE K – LIFE INSURANCE POLICIES

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the accompanying Consolidated 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, 2020 and 2019. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, is approximately \$3,601,000 and \$3,704,000 as of June 30, 2020 and 2019, respectively.

NOTE L – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

The Foundation has been notified of twelve trusts held by other trustees where the remainder interest will irrevocably benefit the University. 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 reflective of the credit risk involved.

Beneficial interest in trusts held by other trustees amounted to approximately \$13,507,000 and \$14,092,000 as of June 30, 2020 and 2019, respectively.

NOTE M – UNIVERSITY FEE

In accordance with an agreement with the University, operating support of approximately \$12,738,000 and \$14,030,000 was provided by the University during the years ended June 30, 2020 and 2019, respectively. The Foundation also receives interest income earned on unexpended gift fund balances held at the University and reimbursement from certain colleges of the University for salaries and fringe benefits paid to college development employees. For the years ended June 30, 2020 and 2019, interest income and salary and benefits were approximately \$1,960,000 and \$1,845,000, respectively.

The University provided to the Foundation at no charge, the use of the building in which the Alumni Relations Department conducts business for the years ended June 30, 2020 and 2019. The value of donated occupancy costs is estimated to be approximately \$193,000 each year, and is included in university fee with

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE M – UNIVERSITY FEE (continued)

an equal and offsetting amount recorded in expenses and other deductions on the accompanying Consolidated Statements of Activities.

NOTE N – ASSESSMENT FEE

The Foundation is also 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 not prohibited assessment of the fee, and unrestricted funds that do not have an internal designation. The gross assessment rate was 1% in 2020 and 2019. Revenue to the Foundation from the fee was approximately \$8,066,000 and \$7,575,000 in 2020 and 2019, respectively, and is used to fund Foundation operations. Approximately \$3,351,000 and \$3,026,000 of this fee was recorded from funds held by the Foundation in 2020 and 2019, respectively.

The Foundation charges an endowment administrative fee to recover gift stewardship costs incurred by the Foundation for those endowments which are not charged the general endowment assessment fee. The endowment administrative rate was 5% in 2020 and 2019, of the spending policy distribution made to the endowment spending account. Revenue to the Foundation from the fee was approximately \$556,000 and \$505,000 in 2020 and 2019, respectively. Approximately \$104,000 and \$103,000 of this fee was recorded from funds held by the Foundation in 2020 and 2019, respectively.

The Foundation charges a fee to be assessed upon all spendable, cash gifts made to the University, the Foundation or the UC Health Foundation. The gift administrative rate was 5% for gifts less than five million and 2% for gift commitments of five million and greater in 2019. In October 2019, the fee was changed to 5% for gifts less than one hundred thousand, 3% for gifts from one hundred thousand to less than five million, 1% for gifts from five million to less than ten million and 0.5% on gifts over ten million, upon the receipt of cash to gift, plant and loan funds. Revenue to the Foundation from the fee was approximately \$1,801,000 and \$2,033,000 in 2020 and 2019, respectively. Approximately \$1,433,000 and \$1,778,000 of this fee was recorded from funds received by the Foundation in 2020 and 2019, respectively.

NOTE O – 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.

Prior to July 1, 2017 present value of annuities payable is recorded using the Foundation's estimated borrowing rate. The present value is calculated by discounting the life income payments using an average interest rate swap plus 200 BP for the time period which most closely matches the average life expectancy of our income beneficiaries. Present values of annuities payable after July 1, 2017 were calculated using the IRS Discount Rate in the month that the trust was created. Changes in future payments due to the life expectancy of beneficiaries and amortization of the discount are reflected in change in present value of

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE O – ANNUITY AND LIFE INCOME FUNDS (continued)

annuities payable on the accompanying Consolidated Statements of Activities. The assets and liabilities of these funds as of June 30 are:

	2020	2019
Annuities		
Investments, at fair value	\$ 3,332,663	\$ 3,202,243
Less present value of annuities payable	<u>(1,551,146)</u>	<u>(1,402,969)</u>
	<u>\$ 1,781,517</u>	<u>\$ 1,799,274</u>
	2020	2019
Trusts		
Investments, at fair value	\$ 13,668,168	\$ 13,438,126
Less present value of annuities payable	<u>(7,835,765)</u>	<u>(6,895,660)</u>
	<u>\$ 5,832,403</u>	<u>\$ 6,542,466</u>

For the year ended June 30, 2020, the Foundation received contributions of approximately \$320,000 and \$345,000 for annuities and trusts, respectively. For the year ended June 30, 2019, the Foundation received contributions of approximately \$206,000 and \$2,572,000 for annuities and trusts, respectively.

The Foundation monitors applicable state laws related to legally-mandated reserves for charitable gift annuities, and maintains reserves for various states, as appropriate.

NOTE P – RETIREMENT PLANS

The Foundation participates in a qualified and contributory retirement plan (TIAA) covering eligible employees. 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 \$1,133,000 and \$1,074,000 for the years ended June 30, 2020 and 2019, respectively.

The Foundation also maintains a Section 457(b) plan for highly compensated employees. Accounts for 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. There were no amounts contributed by the Foundation for the years ended June 30, 2020 and 2019. Although these deferred compensation liabilities are unsecured, assets designated to fund these liabilities are reported in other assets on the accompanying Consolidated Statements of Financial Position. Such assets are subject to the claims of the general creditors of the Foundation.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE Q – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, the Foundation entered into an agreement with the UC Health Foundation (UCHF) to provide executive, administrative and fund raising services for a monthly fee. The fee is reimbursement for the cost incurred by the Foundation for providing support to UCHF. During 2020 and 2019, the Foundation incurred approximately \$2,550,000 and \$2,368,000, respectively in expenses and recognized corresponding revenue under the terms of the agreement. These expenses and revenues are reported in expenses and other deductions and UC Health Foundation fee in the accompanying Statement of Activities.

For the years ended June 30, 2020 and 2019, the Foundation collected contribution payments from certain board members of the Foundation of approximately \$2,178,000 and \$2,312,000 respectively. At June 30, 2020 and 2019, the pledges receivable balance on the accompanying Consolidated Statements of Financial Position included board member pledges of approximately \$5,703,000 and \$5,210,000 respectively. In addition, certain board members are employees of organizations which provide services to the Foundation. Total fees paid to these organizations were approximately \$224,000 and \$183,000 for the years ended June 30, 2020 and 2019, respectively.

See also the description of various related party transactions with the University in Notes G, H, J, L, M and N.

NOTE R – SUBSEQUENT EVENTS

The Foundation evaluated its June 30, 2020 consolidated financial statements for subsequent events through September 24, 2020, the date the consolidated financial statements were available to be issued. No subsequent events were identified.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

SUPPLEMENTAL SCHEDULE

THE UNIVERSITY OF CINCINNATI FOUNDATION

**SUPPLEMENTAL SCHEDULE OF ACTIVITIES -
NET ASSETS WITHOUT DONOR RESTRICTIONS**

Year ended June 30, 2020

	<u>Gifts and Transfers</u>	<u>Foundation Operations</u>	<u>Total</u>
Revenues and other additions:			
Contributions	\$ 204,733	253,625	458,358
University fee	-	14,876,660	14,876,660
UC Health Foundation fee	-	2,549,540	2,549,540
Assessment fee	-	10,422,904	10,422,904
Change in value of split interest agreements	14,361	-	14,361
Other income	21	298,826	298,847
Investment income:			
Dividend and interest income	247,219	96,940	344,159
Net unrealized and realized losses	(140,356)	(32,352)	(172,708)
Net assets released from restrictions - satisfaction of donor restrictions	60,339,888	-	60,339,888
Total revenues and other additions	<u>60,665,866</u>	<u>28,466,143</u>	<u>89,132,009</u>
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	54,699,883	-	54,699,883
Alumni experience	132,244	3,129,243	3,261,487
Assessment fee	4,894,391	-	4,894,391
Total program activities	<u>59,726,518</u>	<u>3,129,243</u>	<u>62,855,761</u>
Supporting services:			
Management and general	-	4,279,964	4,279,964
Fundraising	1,279,794	20,420,907	21,700,701
Total support services	<u>1,279,794</u>	<u>24,700,871</u>	<u>25,980,665</u>
Total expenses and other deductions	<u>61,006,312</u>	<u>27,830,114</u>	<u>88,836,426</u>
(Decrease) Increase in net assets	(340,446)	636,029	295,583
Net assets, beginning of year	3,393,378	15,518,814	18,912,192
Net assets, end of year	\$ <u>3,052,932</u>	<u>16,154,843</u>	<u>19,207,775</u>

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*

Independent Auditor's Report

To Management and the Board of Trustees
The University of Cincinnati Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2020 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated September 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

September 24, 2020

OHIO AUDITOR OF STATE KEITH FABER



UNIVERSITY OF CINCINNATI FOUNDATION

HAMILTON COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 11/24/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov