

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combined Financial Statements and Supplementary Schedules

June 30, 2000 and 1999

With Independent Auditors' Report Thereon



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Board of Trustees
University of Cincinnati Foundation
and Endowment Fund Association

We have reviewed the Independent Auditor's Report of the University of Cincinnati Foundation and Endowment Fund Association, Hamilton County, prepared by KPMG LLP, for the audit period July 1, 1999 to June 30, 2000. 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 and Endowment Fund Association is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

January 24, 2001



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Independent Auditors' Report

The Boards of Trustees
The University of Cincinnati Foundation
and
The Endowment Fund Association:

We have audited the accompanying combined statements of financial position of The University of Cincinnati Foundation and The Endowment Fund Association ("Foundation" and "Association", respectively), as of June 30, 2000 and 1999, and the related combined statements of activities, and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation's and the Association's management. Our responsibility is to express an opinion on these combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The University of Cincinnati Foundation and The Endowment Fund Association as of June 30, 2000 and 1999, and the related changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2000 on our consideration of the Foundation's and Association's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining and other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and activities and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPMG LLP

August 18, 2000

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combined Statements of Financial Position

June 30, 2000 and 1999

Assets	2000	1999
Assets:		
Cash	\$ 3,602,654	2,289,186
Due from University of Cincinnati	1,511,660	1,442,388
Accrued interest receivable	422,714	368,802
Stock proceeds receivable	40,118	15,394
Prepaid expenses	103,638	120,428
Pledges receivable, net of allowance (note 5)	33,583,000	36,262,057
Notes receivable	36,036	72,072
Cash surrender value of life insurance policies (note 6)	1,339,567	1,216,883
Other	4,400	9,541
Investments, at fair value (note 7):		
Cash equivalents	7,631,087	3,630,178
Mutual funds	45,773,297	42,232,131
Corporate stocks	96,040,317	90,260,566
Foreign stocks and obligations	246,712	81,492
U.S. Government and agency obligations	6,112,382	5,741,162
Corporate bonds	6,719,541	7,130,700
Municipal obligations	225,197	239,316
Total investments	<u>162,748,533</u>	<u>149,315,545</u>
Investment property, net of accumulated depreciation of \$711,113 and in 2000 and \$652,275 in 1999	1,105,134	1,362,723
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$30,048 in 2000 and \$494,963 in 1999	353,339	—
Equipment and automobile, net of accumulated depreciation of \$759,625 in 2000 and \$720,697 in 1999 (note 8)	<u>1,151,164</u>	<u>899,677</u>
Total assets	<u>\$ 206,001,957</u>	<u>193,374,696</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 630,036	942,124
Accrued liabilities	160,376	179,666
Accrued compensated absences	187,227	179,195
Agency payable	13,675,264	15,742,165
Refundable deposits	919,051	924,885
Obligations under capital leases (note 9)	86,739	143,693
Due to University of Cincinnati (note 10)	719,335	—
Present value of annuities payable (note 14)	<u>9,648,660</u>	<u>9,021,432</u>
Total liabilities	<u>26,026,688</u>	<u>27,133,160</u>
Net assets:		
Unrestricted	46,910,083	42,701,754
Temporarily restricted (note 3)	50,204,127	48,781,546
Permanently restricted (note 4)	<u>82,861,059</u>	<u>74,758,236</u>
Total net assets	<u>179,975,269</u>	<u>166,241,536</u>
Total liabilities and net assets	<u>\$ 206,001,957</u>	<u>193,374,696</u>

See accompanying notes to combined financial statements.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combined Statement of Activities

Year ended June 30, 2000

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 2,247,723	11,819,874	7,835,360	21,902,957
Foundation	—	133,400	—	133,400
University fee (note 11)	1,574,625	57,417	—	1,632,042
Assessment fee (note 12)	4,945,513	—	—	4,945,513
Rental and other income	192,022	881,154	4,335	1,077,511
Investment income:				
Dividend and interest income	763,051	3,532,139	152,914	4,448,104
Net unrealized and realized gains	4,763,063	1,245,510	—	6,008,573
Reclassification of contributions pursuant to donor stipulation	(1,859,562)	1,463,835	395,727	—
Net assets released from restrictions – Satisfaction of donor restrictions	16,959,367	(16,959,367)	—	—
Total revenues and other additions	29,585,802	2,173,962	8,388,336	40,148,100
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	16,324,689	—	—	16,324,689
Operating expenses	8,229,088	—	—	8,229,088
Assessment fee (note 12)	823,696	—	—	823,696
Total expenses	25,377,473	—	—	25,377,473
Change in actuarial liability	—	751,381	285,513	1,036,894
Total expenses and other deductions	25,377,473	751,381	285,513	26,414,367
Change in net assets	4,208,329	1,422,581	8,102,823	13,733,733
Net assets, beginning of year	42,701,754	48,781,546	74,758,236	166,241,536
Net assets, end of year	\$ 46,910,083	50,204,127	82,861,059	179,975,269

See accompanying notes to combined financial statements.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combined Statement of Activities

Year ended June 30, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 2,533,239	12,537,751	8,951,181	24,022,171
Foundation	—	194,351	—	194,351
University fee (note 11)	1,472,005	57,417	—	1,529,422
Assessment fee (note 12)	4,435,408	—	—	4,435,408
Rental and other income	271,774	982,198	47,962	1,301,934
Investment income:				
Dividend and interest income	593,823	2,563,861	81,587	3,239,271
Net unrealized and realized gains	5,872,473	1,390,274	—	7,262,747
Reclassification of contributions pursuant to donor stipulation	(2,062,296)	1,650,199	412,097	—
Net assets released from restrictions – Satisfaction of donor restrictions	<u>15,666,766</u>	<u>(15,666,766)</u>	<u>—</u>	<u>—</u>
Total revenues and other additions	28,783,192	3,709,285	9,492,827	41,985,304
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	15,222,531	—	—	15,222,531
Operating expenses	7,527,059	—	—	7,527,059
Assessment fee (note 12)	<u>663,858</u>	<u>—</u>	<u>—</u>	<u>663,858</u>
Total expenses	23,413,448	—	—	23,413,448
Change in actuarial liability	<u>—</u>	<u>406,168</u>	<u>15,937</u>	<u>422,105</u>
Total expenses and other deductions	<u>23,413,448</u>	<u>406,168</u>	<u>15,937</u>	<u>23,835,553</u>
Change in net assets	5,369,744	3,303,117	9,476,890	18,149,751
Net assets, beginning of year	<u>37,332,010</u>	<u>45,478,429</u>	<u>65,281,346</u>	<u>148,091,785</u>
Net assets, end of year	<u>\$ 42,701,754</u>	<u>48,781,546</u>	<u>74,758,236</u>	<u>166,241,536</u>

See accompanying notes to combined financial statements.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combined Statements of Cash Flows

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Payments to or for the University of Cincinnati	\$ (16,324,688)	(15,222,530)
University fees, assessment fees and other	6,592,064	6,407,447
Cash paid for compensation	(5,061,434)	(4,902,565)
Cash received for gifts	14,348,173	14,729,498
Investment income available for distribution	4,360,107	3,199,517
Cash received from sales and services	191,967	266,021
Cash paid for operating expenses	<u>(2,044,048)</u>	<u>(1,781,349)</u>
Net cash provided by operating activities	<u>2,062,141</u>	<u>2,696,039</u>
Cash flows from investing activities:		
Proceeds from sale of investments	56,507,375	49,748,650
Purchase of investments	(59,729,988)	(70,448,100)
Purchase of property and equipment	<u>(914,777)</u>	<u>(99,264)</u>
Net cash used by investing activities	<u>(4,137,390)</u>	<u>(20,798,714)</u>
Cash flows from financing activities:		
Proceeds from contributions to endowment and similar funds	7,412,495	6,399,702
Payments on capital lease obligation	(56,954)	(53,652)
Investment income restricted for reinvestment	<u>34,085</u>	<u>38,047</u>
Net cash provided by financing activities	<u>7,389,626</u>	<u>6,384,097</u>
Net increase (decrease) in cash and cash equivalents	5,314,377	(11,718,578)
Cash and cash equivalents, beginning of year	<u>5,919,364</u>	<u>17,637,942</u>
Cash and cash equivalents, end of year	<u>\$ 11,233,741</u>	<u>5,919,364</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Increase in net assets	\$ 13,733,733	18,149,751
Adjustments to reconcile increase in net assets to increase in net cash provided (used) by operating activities:		
Provision for losses on pledges receivable	447,623	375,090
Depreciation and amortization	366,647	308,075
Increase in due from University of Cincinnati	(69,272)	(99,332)
Increase in accrued interest receivable	(53,912)	(1,707)
Increase (decrease) in stock proceeds receivable	(24,724)	89,991
Decrease in prepaid expenses	16,790	9,312
Decrease (increase) in pledges receivable	2,231,434	(7,453,706)
Decrease in notes receivable	36,036	57,159
Increase in cash surrender value of life insurance policies	(122,684)	(75,770)
Decrease in other assets	5,141	160,582
Increase (decrease) in accounts payable	(312,088)	177,720
Increase (decrease) in accrued liabilities	(19,290)	11,976
Increase (decrease) in accrued compensated absences	8,032	(11,103)
Increase (decrease) in agency payable	(2,066,901)	2,223,118
Decrease in refundable deposits	(5,834)	(12,935)
Increase in due to University of Cincinnati	719,335	—
Increase in present value of annuities payable	627,228	2,488,314
Contributions to endowment and similar funds	(7,412,495)	(6,399,702)
Investment income restricted for reinvestment	(34,085)	(38,047)
Net gain on investments	<u>(6,008,573)</u>	<u>(7,262,747)</u>
Net cash provided by operating activities	<u>\$ 2,062,141</u>	<u>2,696,039</u>

See accompanying notes to combined financial statements.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

(1) Organization

The University of Cincinnati Foundation (Foundation), a non-profit organization, operates exclusively for the benefit of the University of Cincinnati (University). Its principal function is to solicit, receive, hold, invest and administer funds and to make distributions to or for the benefit of the University. The Endowment Fund Association of the University of Cincinnati (Association) was established in 1898 as the University's first endowment fund. Association funds consist of endowments that were granted to the University of Cincinnati between 1898 and the early 1970's. The primary purpose of the Association is to generate income from Endowment Funds held to be used to support various programs at the University according to donor restrictions.

(2) Summary of Significant Accounting Policies

Combination

The accompanying combined financial statements include the accounts of the Foundation and the Association which is affiliated with the Foundation through a common Board of Trustees.

Basis of Presentation

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

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

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

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

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

Contributions received by the Foundation and the Association for the benefit of the University are classified as University contributions on the combined statement 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.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

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

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

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

Plough Foundation

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

The amount of unrestricted funds which would return to the Foundation was \$251,292, and \$270,492 as of June 30, 2000 and 1999, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 2000 and 1999, respectively.

Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

Investment Securities

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 2000 and 1999 was \$131,900,000, and \$117,770,000.

Investment Property

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

Property and Equipment

Property and other assets are recorded at cost (or fair market value in the case of a gift) less accumulated depreciation and amortization. Software under capital lease is stated at the present value of minimum lease payments less accumulated amortization. The estimated useful lives are principally four years for automobiles and computer equipment, five years for office equipment, and ten years for software. All assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Agency Transactions

Certain gifts to scholarship funds, loan funds, plant funds, or endowments whereby the principal is held at the University, are transactions in which the Foundation is acting as an agent for the University. These gifts are recorded as increases to assets and agency payables. Subsequent distributions are recorded as decreases in those accounts.

Income Taxes

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

Use of Estimates

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

Reclassification

Certain 1999 amounts have been reclassified to conform with the 2000 presentation.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

(3) Temporarily Restricted Net Assets

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

	2000	1999
Unexpended contributions for restricted purposes	\$ 35,596,214	33,985,343
Pledges receivable	10,665,345	10,995,881
Annuity and life income funds	3,942,568	3,800,322
Total temporarily restricted net assets	\$ 50,204,127	48,781,546

(4) Permanently Restricted Net Assets

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

	2000	1999
Endowment funds	\$ 70,083,811	62,492,975
Pledges receivable	9,487,974	9,121,665
Annuity and life income funds	3,289,274	3,143,596
Total permanently restricted net assets	\$ 82,861,059	74,758,236

(5) Pledges Receivable

Contributors to the Foundation and the Association have made unconditional pledges totaling \$41,932,427 and \$41,757,273 as of June 30, 2000 and 1999, respectively. These pledges receivable have been discounted at a rate of 6% to a net present value of \$34,903,000 and \$37,627,857 as of June 30, 2000 and 1999, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	2000	1999
Less than one year	\$ 14,863,585	19,010,531
One to five years	11,281,835	13,173,860
More than five years	8,757,580	5,443,466
Subtotal	34,903,000	37,627,857
Less allowance for uncollectible pledges	1,320,000	1,365,800
Total	\$ 33,583,000	36,262,057

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

(6) Life Insurance Policies

The Foundation is the beneficiary of certain life insurance policies which are recorded at their cash surrender value in the combined financial statements. The cash surrender value represents the amount the Foundation, as beneficiary, would realize if such policies were surrendered as of June 30, 2000 and 1999. The face value of these policies, which would be paid only upon death of the insured or maturity of the contracts, approximated \$6,251,000 and \$6,051,000 as of June 30, 2000 and 1999, respectively.

(7) Investments

The Foundation and Association have realized economies of scale by combining certain investment securities of the Foundation and Association into one pool while maintaining individual records of each fund for reporting purposes. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each quarter. Income is allocated to each fund in the pool based on units of participation. The value of the pooled investments approximated \$121,390,000 and \$111,419,000 as of June 30, 2000 and 1999, respectively.

The Foundation and Association have adopted a spending rate policy which limits the distribution of endowment income earned in the investment pool to 5% of the moving average market value for the twelve-quarter period ended each December. Earnings above this limit are reinvested in the endowment fund for the purpose of promoting endowment fund growth. During 2000 and 1999, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$2,035,000 and \$2,212,000, respectively. This shortfall was funded by appreciation of the investment pool for the years ended June 30, 2000 and 1999.

The Foundation also manages other investments which amounted to approximately \$41,358,000 and \$37,896,000 as of June 30, 2000 and 1999, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

(8) Equipment and Automobile

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

	2000	1999
Office equipment	\$ 571,218	268,121
Software	798,334	797,962
Automobile	17,980	17,980
Computer equipment	523,257	536,311
	1,910,789	1,620,374
Less accumulated depreciation	(759,625)	(720,697)
	\$ 1,151,164	899,677

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

(9) Leases

The Foundation is obligated under a capital lease for software that expires on November 30, 2001. At June 30, 2000, the gross amount of software and related amortization recorded under the capital lease were \$276,000 and \$64,400, respectively.

The Foundation also has several noncancelable operating leases, primarily for buildings, that expired in fiscal year 2000. Rental expense for operating leases during 2000 and 1999 were \$214,000 and \$77,500, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining terms in excess of one year) and future minimum capital lease payments as of June 30, 2000 are:

	Capital Leases	Operating Leases
Year ending June 30,		
2001	\$ 64,015	253,870
2002	26,673	239,470
2003	—	239,470
2004	—	239,470
2005	—	239,470
Thereafter	—	4,609,800
Total minimum lease payments	90,688	5,821,550
Less amount representing interest (at 5.99%)	3,949	
Present value of net minimum capital lease payments	\$ 86,739	

(10) Fair Value of Financial Instruments

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

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

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

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

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Notes to Combined Financial Statements

June 30, 2000 and 1999

The Foundation is obligated to repay the University of Cincinnati for the cost of office equipment and improvements associated with the move of the Foundation's office in 2000. The recorded amount of the non-interest bearing obligation is \$719,335 and is payable in equal annual payments with the final payment due in July 2006. The fair value of the obligation is \$624,905, which is the present value of expected future cash payments discounted at 6%.

(11) University Fee

In accordance with an agreement with the University, the Foundation provides fund-raising services, gift accounting and processing and similar services for a fee which may be negotiated periodically.

(12) Assessment Fee

A fee is assessed on certain endowment funds held by the University, the Foundation and the Association, based on the appreciated market value of eligible funds. Funds that are eligible for the fee assessment include quasi-endowment funds, funds which are broadly restricted by college or department, funds whereby the donor has given permission to assess the fee and unrestricted funds which do not have an internal designation. The gross assessment rate for fiscal years 2000 and 1999 was 1.25%. Revenue to the Foundation from the fee was approximately \$4,946,000 and \$4,435,000 in fiscal years 2000 and 1999, respectively, and is used to fund the Foundation operations. Approximately \$824,000 and \$664,000 of this fee was recorded from funds held by the Foundation and Association in 2000 and 1999, respectively.

(13) Retirement Plan

The Foundation and Association participate in a retirement plan (TIAA/CREF) covering Foundation 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 \$334,000 and \$314,000 in 2000 and 1999, respectively.

(14) Annuity and Life Income Funds

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

	2000	1999
Investments, at market	\$ 19,792,447	18,836,892
Present value of annuities payable	9,648,660	9,021,432
	\$ 10,143,787	9,815,460

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combining Schedule - Statement of Financial Position

June 30, 2000

Assets	The University of Cincinnati Foundation	The Endowment Fund Association	Combined
Cash	\$ 3,244,492	358,162	3,602,654
Due from University of Cincinnati	1,511,660	—	1,511,660
Accrued interest receivable	394,812	27,902	422,714
Stock proceeds receivable	40,118	—	40,118
Prepaid expenses	103,638	—	103,638
Pledges receivable, net of allowance	33,583,000	—	33,583,000
Notes receivable	36,036	—	36,036
Cash surrender value of life insurance policies	1,339,567	—	1,339,567
Other	4,400	—	4,400
Investments, at market	125,040,821	37,707,712	162,748,533
Investment property, net	1,105,134	—	1,105,134
Property and equipment:			
Leasehold improvements, net of amortization of \$30,048	353,339	—	353,339
Equipment and automobile, net of depreciation of \$759,625	1,151,164	—	1,151,164
	<u>1,151,164</u>	<u>—</u>	<u>1,151,164</u>
Total assets	\$ <u>167,908,181</u>	<u>38,093,776</u>	<u>206,001,957</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 602,134	27,902	630,036
Accrued liabilities	160,376	—	160,376
Accrued compensated absences	187,227	—	187,227
Agency payable	13,675,264	—	13,675,264
Refundable deposit	919,051	—	919,051
Obligations under capital leases	86,739	—	86,739
Due to University of Cincinnati	719,335	—	719,335
Present value of annuities payable	9,648,660	—	9,648,660
	<u>25,998,786</u>	<u>27,902</u>	<u>26,026,688</u>
Total liabilities	<u>25,998,786</u>	<u>27,902</u>	<u>26,026,688</u>
Net assets:			
Unrestricted	36,099,876	10,810,207	46,910,083
Temporarily restricted	49,854,330	349,797	50,204,127
Permanently restricted	55,955,189	26,905,870	82,861,059
	<u>141,909,395</u>	<u>38,065,874</u>	<u>179,975,269</u>
Total net assets	<u>141,909,395</u>	<u>38,065,874</u>	<u>179,975,269</u>
Total liabilities and net assets	\$ <u>167,908,181</u>	<u>38,093,776</u>	<u>206,001,957</u>

See accompanying independent auditors' report.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Combining Schedule - Statement of Activities

Year ended June 30, 2000

	<u>The University of Cincinnati Foundation</u>	<u>The Endowment Fund Association</u>	<u>Combined</u>
Revenues and other additions:			
Contributions:			
University	\$ 21,902,957	—	21,902,957
Foundation	133,400	—	133,400
University fee	1,632,042	—	1,632,042
Assessment fee	4,945,513	—	4,945,513
Rental and other income	1,077,511	—	1,077,511
Investment income:			
Dividend and interest income	2,987,561	1,460,543	4,448,104
Net unrealized and realized gains	4,405,909	1,602,664	6,008,573
Reclassification of contributions pursuant to donor stipulation	664,769	(664,769)	—
Total revenues and other additions	<u>37,749,662</u>	<u>2,398,438</u>	<u>40,148,100</u>
Expenses and other deductions:			
Distributed to or for the University of Cincinnati	14,899,625	1,425,064	16,324,689
Operating expenses	8,229,088	—	8,229,088
Assessment fee	421,059	402,637	823,696
Total expenses	<u>23,549,772</u>	<u>1,827,701</u>	<u>25,377,473</u>
Change in actuarial liability	<u>1,036,894</u>	—	<u>1,036,894</u>
Total expenses and other deductions	<u>24,586,666</u>	<u>1,827,701</u>	<u>26,414,367</u>
Change in net assets	13,162,996	570,737	13,733,733
Net assets, beginning of year	<u>128,746,399</u>	<u>37,495,137</u>	<u>166,241,536</u>
Net assets, end of year	<u>\$ 141,909,395</u>	<u>38,065,874</u>	<u>179,975,269</u>

See accompanying independent auditors' report.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Schedule of Combined Operating Expenses

Years ended June 30, 2000 and 1999

	Foundation Operations	College/ University Expenses	2000	Total 1999
Salaries and wages	\$ 3,701,080	241,448	3,942,528	3,853,160
Fringe benefits	1,037,973	69,671	1,107,644	1,050,276
Professional services	431,492	—	431,492	338,921
Provision for losses on pledges receivable	—	447,623	447,623	375,090
Promotional materials and events	428,985	—	428,985	372,625
Depreciation and amortization	307,809	58,838	366,647	308,075
Telephone and postage	277,872	5,746	283,618	242,456
Travel	233,891	—	233,891	277,511
Computer and word processing	132,496	—	132,496	107,925
Building lease	214,904	—	214,904	84,951
Business meetings	114,893	—	114,893	91,398
Resource materials	51,548	—	51,548	71,596
Development and recruiting	101,621	—	101,621	93,615
Copying charges	34,339	—	34,339	35,074
Utilities, repairs and maintenance	58,423	2,663	61,086	48,610
Cleaning	49,482	—	49,482	37,469
Supplies	82,820	—	82,820	25,496
Insurance	18,513	—	18,513	18,481
University Hall parking	16,340	—	16,340	—
Miscellaneous	86,532	22,086	108,618	94,330
	<u>\$ 7,381,013</u>	<u>848,075</u>	<u>8,229,088</u>	<u>7,527,059</u>

See accompanying independent auditors' report.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Schedule of Activities - Unrestricted Net Assets
Year ended June 30, 2000

	<u>Gifts and Transfers</u>	<u>Foundation Operations</u>	<u>Total</u>
Revenues and other additions:			
Contributions –			
University	\$ 2,247,723	—	2,247,723
University fee	—	1,574,625	1,574,625
Assessment fee	—	4,945,513	4,945,513
Rental and other income	—	192,022	192,022
Investment income:			
Dividend and interest income	161,864	601,187	763,051
Net unrealized and realized gains	4,811,545	(48,482)	4,763,063
Reclassification of contributions pursuant to donor stipulation	(1,934,604)	75,042	(1,859,562)
Net assets released from restrictions – Satisfaction of donor restrictions	<u>16,959,367</u>	<u>—</u>	<u>16,959,367</u>
Total revenues and other additions	<u>22,245,895</u>	<u>7,339,907</u>	<u>29,585,802</u>
Expenses:			
Distributed to or for the University of Cincinnati	16,324,689	—	16,324,689
Operating expenses	848,075	7,381,013	8,229,088
Assessment fee	<u>823,696</u>	<u>—</u>	<u>823,696</u>
Total expenses	17,996,460	7,381,013	25,377,473
Change in net assets	4,249,435	(41,106)	4,208,329
Net assets, beginning of year	<u>40,690,997</u>	<u>2,010,757</u>	<u>42,701,754</u>
Net assets, end of year	<u>\$ 44,940,432</u>	<u>1,969,651</u>	<u>46,910,083</u>

See accompanying independent auditors' report.

**THE UNIVERSITY OF CINCINNATI FOUNDATION
AND THE ENDOWMENT FUND ASSOCIATION**

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

August 18, 2000



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
The University of Cincinnati Foundation
and the Endowment Fund Association:

We have audited the combined financial statements of The University of Cincinnati Foundation and the Endowment Fund Association (collectively, "The Foundation") as of and for the year ended June 30, 2000, and have issued our report thereon, dated August 18, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended for the information of the Board of Trustees and management of The Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

August 18, 2000



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OFFICE OF THE AUDITOR

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UNIVERSITY OF CINCINNATI FOUNDATION AND ENDOWMENT FUND ASSOCIATION

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
FEBRUARY 08, 2001**