



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

Combined Financial Statements and Supplementary Schedules

June 30, 2001 and 2000

With Independent Auditors' Report Thereon





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

We have reviewed the independent auditor's report of The University of Cincinnati Foundation, Hamilton County, prepared by KPMG LLP, for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO  
Auditor of State

December 26, 2001

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1600 PNC Center  
201 East Fifth Street  
Cincinnati, OH 45202

## 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, 2001 and 2000, 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, 2001 and 2000, 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 24, 2001 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 the 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 24, 2001

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

Combined Statements of Financial Position

June 30, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Assets:		
Cash	\$ 5,007,202	3,602,654
Due from University of Cincinnati	1,397,365	1,511,660
Accrued interest receivable	332,785	422,714
Stock proceeds receivable	66,372	40,118
Prepaid expenses	99,275	103,638
Pledges receivable, net of allowance (note 5)	41,391,256	33,583,000
Notes receivable	—	36,036
Cash surrender value of life insurance policies (note 6)	1,490,861	1,339,567
Other	14,977	4,400
Investments, at fair value (note 7)		
Cash equivalents	7,581,516	7,631,087
Mutual funds	51,877,838	45,773,297
Corporate stocks	79,904,186	96,040,317
Foreign stocks and obligations	50,548	246,712
U.S. Government and agency obligations	5,397,784	6,112,382
Corporate bonds	7,010,996	6,719,541
Municipal obligations	224,367	225,197
Total investments	<u>152,047,235</u>	<u>162,748,533</u>
Investment property, net of accumulated depreciation of \$769,951 in 2001 and \$711,113 in 2000	836,296	1,105,134
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$75,764 in 2001 and \$30,048 in 2000	402,293	353,339
Equipment and automobile, net of accumulated depreciation of \$1,002,161 in 2001 and \$759,625 in 2000 (note 8)	<u>943,920</u>	<u>1,151,164</u>
Total assets	<u>\$ 204,029,837</u>	<u>206,001,957</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 562,127	630,036
Accrued liabilities	152,906	160,376
Accrued compensated absences	191,040	187,227
Agency payable (note 2)	18,811,289	13,675,264
Refundable deposits	793,135	919,051
Obligations under capital leases (note 9)	26,278	86,739
Due to University of Cincinnati (note 10)	599,446	719,335
Present value of annuities payable (note 14)	<u>9,109,142</u>	<u>9,648,660</u>
Total liabilities	<u>30,245,363</u>	<u>26,026,688</u>
Net assets:		
Unrestricted	31,678,308	46,910,083
Temporarily restricted (note 3)	50,413,224	50,204,127
Permanently restricted (note 4)	<u>91,692,942</u>	<u>82,861,059</u>
Total net assets	<u>173,784,474</u>	<u>179,975,269</u>
Total liabilities and net assets	<u>\$ 204,029,837</u>	<u>206,001,957</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, 2001

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Revenues and other additions:				
Contributions:				
University	\$ 583,796	12,754,768	8,361,061	21,699,625
Foundation	—	101,058	—	101,058
University fee (note 11)	1,604,866	57,417	—	1,662,283
Assessment fee (note 12)	4,518,841	—	—	4,518,841
Rental and other income	135,416	784,766	574	920,756
Investment income:				
Dividend and interest income	820,151	3,116,339	102,330	4,038,820
Net unrealized and realized losses	(11,400,290)	(1,128,759)	—	(12,529,049)
Reclassification of contributions pursuant to donor stipulation	(2,726,912)	2,670,474	56,438	—
Net assets released from restrictions – Satisfaction of donor restrictions	17,609,179	(17,609,179)	—	—
Total revenues and other additions	11,145,047	746,884	8,520,403	20,412,334
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	17,220,709	—	—	17,220,709
Operating expenses	8,563,444	—	—	8,563,444
Assessment fee (note 12)	592,669	—	—	592,669
Total expenses	26,376,822	—	—	26,376,822
Change in present value of annuities payable	—	537,787	(311,480)	226,307
Total expenses and other deductions (additions)	26,376,822	537,787	(311,480)	26,603,129
Change in net assets	(15,231,775)	209,097	8,831,883	(6,190,795)
Net assets, beginning of year	46,910,083	50,204,127	82,861,059	179,975,269
Net assets, end of year	\$ 31,678,308	50,413,224	91,692,942	173,784,474

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>29,585,802</u>	<u>2,173,962</u>	<u>8,388,336</u>	<u>40,148,100</u>
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	<u>25,377,473</u>	<u>—</u>	<u>—</u>	<u>25,377,473</u>
Change in present value of annuities payable	—	751,381	285,513	1,036,894
Total expenses and other deductions	<u>25,377,473</u>	<u>751,381</u>	<u>285,513</u>	<u>26,414,367</u>
Change in net assets	4,208,329	1,422,581	8,102,823	13,733,733
Net assets, beginning of year	<u>42,701,754</u>	<u>48,781,546</u>	<u>74,758,236</u>	<u>166,241,536</u>
Net assets, end of year	<u>\$ 46,910,083</u>	<u>50,204,127</u>	<u>82,861,059</u>	<u>179,975,269</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, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Payments to or for the University of Cincinnati	\$ (17,220,709)	(16,324,688)
University fees, assessment fees and other	6,483,419	6,592,064
Cash paid for compensation	(5,368,763)	(5,061,434)
Cash received for gifts	13,019,767	14,348,173
Investment income available for distribution	4,086,835	4,360,107
Cash received from sales and services	133,872	191,967
Cash paid for operating expenses	<u>(2,543,456)</u>	<u>(2,044,048)</u>
Net cash provided (used) by operating activities	<u>(1,409,035)</u>	<u>2,062,141</u>
Cash flows from investing activities:		
Proceeds from sale of investments	78,423,877	56,507,375
Purchase of investments	(80,090,802)	(59,729,988)
Purchase of property and equipment	<u>(170,522)</u>	<u>(914,777)</u>
Net cash used by investing activities	<u>(1,837,447)</u>	<u>(4,137,390)</u>
Cash flows from financing activities:		
Proceeds from contributions to endowment and similar funds	4,620,007	7,412,495
Payments on capital lease obligation	(60,461)	(56,954)
Investment income restricted for reinvestment	<u>41,913</u>	<u>34,085</u>
Net cash provided by financing activities	<u>4,601,459</u>	<u>7,389,626</u>
Net increase in cash and cash equivalents	1,354,977	5,314,377
Cash and cash equivalents, beginning of year	<u>11,233,741</u>	<u>5,919,364</u>
Cash and cash equivalents, end of year	<u>\$ 12,588,718</u>	<u>11,233,741</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in net assets	\$ (6,190,795)	13,733,733
Adjustments to reconcile increase (decrease) in net assets to increase in net cash provided (used) by operating activities:		
Provision for losses on pledges receivable	570,684	447,623
Depreciation and amortization	387,253	366,647
Decrease (increase) in due from University of Cincinnati	114,295	(69,272)
Decrease (increase) in accrued interest receivable	89,929	(53,912)
Increase in stock proceeds receivable	(26,254)	(24,724)
Decrease in prepaid expenses	4,363	16,790
Decrease (increase) in pledges receivable	(8,378,940)	2,231,434
Decrease in notes receivable	36,036	36,036
Increase in cash surrender value of life insurance policies	(151,294)	(122,684)
Decrease (increase) in other assets	(10,577)	5,141
Decrease in accounts payable	(67,909)	(312,088)
Decrease in accrued liabilities	(7,470)	(19,290)
Increase in accrued compensated absences	3,813	8,032
Increase (decrease) in agency payable	5,136,025	(2,066,901)
Decrease in refundable deposits	(125,916)	(5,834)
Increase (decrease) in due to University of Cincinnati	(119,889)	719,335
Increase (decrease) in present value of annuities payable	(539,518)	627,228
Contributions to endowment and similar funds	(4,620,007)	(7,412,495)
Investment income restricted for reinvestment	(41,913)	(34,085)
Net loss (gain) on investments	<u>12,529,049</u>	<u>(6,008,573)</u>
Net cash provided (used) by operating activities	<u>\$ (1,409,035)</u>	<u>2,062,141</u>

See accompanying notes to combined financial statements.

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

Notes to Financial Statements

June 30, 2001 and 2000

**(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**

**(a) 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.

**(b) 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. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restriction from temporarily restricted net assets to unrestricted net assets. If a donor requests a change in

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

Notes to Financial Statements

June 30, 2001 and 2000

purpose or time period for use of funds, the change is recorded as reclassification of contributions pursuant to donor stipulations on the combined statements of activities. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

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

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

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

Plough Foundation

Beginning in fiscal 1982, the Foundation 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 \$233,800 and \$251,292 as of June 30, 2001 and 2000, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 2001 and 2000, respectively.

**THE UNIVERSITY OF CINCINNATI FOUNDATION  
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Notes to Financial Statements

June 30, 2001 and 2000

**(c) Cash and Cash Equivalents**

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2001 and 2000, \$10,936,538 and \$9,368,819, respectively, of cash and cash equivalents are in excess of Federally insured limits.

**(d) Investment Securities**

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 2001 and 2000 was approximately \$143,800,000 and \$131,900,000.

**(e) 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.

**(f) 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.

**(g) 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.

**(h) 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.

**(i) 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.

**(j) Reclassifications**

Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

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

Notes to Financial Statements

June 30, 2001 and 2000

**(3) Temporarily Restricted Net Assets**

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

	<b>2001</b>	<b>2000</b>
Unexpended contributions for restricted purposes	\$ 37,733,452	35,596,214
Pledges receivable	9,406,638	10,665,345
Annuity and life income funds	3,273,134	3,942,568
Total temporarily restricted net assets	\$ 50,413,224	50,204,127

**(4) Permanently Restricted Net Assets**

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

	<b>2001</b>	<b>2000</b>
Endowment funds	\$ 75,788,607	70,083,811
Pledges receivable	13,132,428	9,487,974
Annuity and life income funds	2,771,907	3,289,274
Total permanently restricted net assets	\$ 91,692,942	82,861,059

**(5) Pledges Receivable**

Contributors to the Foundation and the Association have made unconditional pledges totaling \$49,407,811 and \$41,932,427 as of June 30, 2001 and 2000, respectively. These pledges receivable have been discounted at a rate of 6% to a net present value of \$42,547,256 and \$34,903,000 as of June 30, 2001 and 2000, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	<b>2001</b>	<b>2000</b>
Less than one year	\$ 22,938,273	14,863,585
One to five years	10,469,647	11,281,835
More than five years	9,139,336	8,757,580
Subtotal	42,547,256	34,903,000
Less allowance for uncollectible pledges	1,156,000	1,320,000
Total	\$ 41,391,256	33,583,000

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Notes to Financial Statements

June 30, 2001 and 2000

**(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, 2001 and 2000. The face value of these policies, which would be paid only upon death of the insured or maturity of the contracts, approximated \$7,224,000 and \$6,251,000 as of June 30, 2001 and 2000, 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 \$112,774,000 and \$121,390,000 as of June 30, 2001 and 2000, 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 2001 and 2000, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$3,078,000 and \$2,035,000, respectively. This shortfall was funded by capital gains in the investment pool for the years ended June 30, 2001 and 2000.

The Foundation also manages other investments which amounted to approximately \$39,273,000 and \$41,358,000 as of June 30, 2001 and 2000, 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:

	<b>2001</b>	<b>2000</b>
Office equipment	\$ 601,022	571,218
Software	802,010	798,334
Automobile	17,980	17,980
Computer equipment	525,069	523,257
	1,946,081	1,910,789
Less accumulated depreciation	(1,002,161)	(759,625)
	\$ 943,920	1,151,164

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

Notes to Financial Statements

June 30, 2001 and 2000

**(9) Leases**

The Foundation is obligated under a capital lease for software that expires on November 30, 2001. At June 30, 2001, the gross amount of software and related amortization recorded under the capital lease were \$276,000 and \$92,000 respectively.

Rental expense for operating leases during 2001 and 2000 were approximately \$255,000 and \$214,000, 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, 2001 are:

	<b>Capital Leases</b>	<b>Operating Leases</b>
Year ending June 30,		
2002	\$ 26,673	253,870
2003	—	253,870
2004	—	253,870
2005	—	253,870
2006	—	245,470
Thereafter	—	4,370,330
Total minimum lease payments	26,673	5,631,280
Less amount representing interest (at 5.99%)	395	
Present value of net minimum capital lease payments	26,278	

**(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 Foundation is obligated to repay the University of Cincinnati for the cost of equipment and improvements associated with the move of the Foundation's office in 2000. As of June 30, 2001 and 2000, the recorded amount of the non-interest bearing obligation is \$599,446 and \$719,335, respectively, and is

**THE UNIVERSITY OF CINCINNATI FOUNDATION  
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Notes to Financial Statements

June 30, 2001 and 2000

payable in equal annual payments of \$119,889 with the final payment due in July 2006. As of June 30, 2001 and 2000, the fair value of the obligation is \$535,318 and \$624,905, respectively, 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 2001 and 2000 was 1.00% and 1.25%, respectively. Revenue to the Foundation from the fee was approximately \$4,519,000 and \$4,946,000 in fiscal years 2001 and 2000, respectively, and is used to fund the Foundation operations. Approximately \$593,000 and \$824,000 of this fee was recorded from funds held by the Foundation and Association in 2001 and 2000, 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 \$360,000 and \$334,000 in 2001 and 2000, 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:

	<b>2001</b>	<b>2000</b>
Investments, at fair value	\$ 17,697,605	19,792,447
Present value of annuities payable	9,109,142	9,648,660
	\$ 8,588,463	10,143,787



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

Notes to Financial Statements

June 30, 2001 and 2000

**(15) Subsequent Event**

In February 2001, the Foundation's Board of Trustees approved a resolution to combine the Foundation's investments with the investments of the University of Cincinnati to maximize investment diversification. The pooling of these investments will occur on January 1, 2002.

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

Combining Schedule - Statement of Financial Position

June 30, 2001

<b>Assets</b>	<b>The University of Cincinnati Foundation</b>	<b>The Endowment Fund Association</b>	<b>Combined</b>
Cash	\$ 4,619,718	387,484	5,007,202
Due from University of Cincinnati	1,397,365	—	1,397,365
Accrued interest receivable	311,440	21,345	332,785
Stock proceeds receivable	66,372	—	66,372
Prepaid expenses	99,275	—	99,275
Pledges receivable, net of allowance	41,391,256	—	41,391,256
Cash surrender value of life insurance policies	1,490,861	—	1,490,861
Other	14,977	—	14,977
Investments, at fair value	118,766,355	33,280,880	152,047,235
Investment property, net	836,296	—	836,296
Property and equipment:			
Leasehold improvements, net of accumulated amortization of \$75,764	402,293	—	402,293
Equipment and automobile, net of accumulated depreciation of \$1,002,161	943,920	—	943,920
	<u>170,340,128</u>	<u>33,689,709</u>	<u>204,029,837</u>
Total assets	\$		
		<u>33,689,709</u>	<u>204,029,837</u>
<b>Liabilities and Net Assets</b>			
Liabilities:			
Accounts payable	\$ 540,782	21,345	562,127
Accrued liabilities	152,906	—	152,906
Accrued compensated absences	191,040	—	191,040
Agency payable	18,811,289	—	18,811,289
Refundable deposit	793,135	—	793,135
Obligations under capital leases	26,278	—	26,278
Due to University of Cincinnati	599,446	—	599,446
Present value of annuities payable	9,109,142	—	9,109,142
	<u>30,224,018</u>	<u>21,345</u>	<u>30,245,363</u>
Total liabilities			
Net assets:			
Unrestricted	25,294,248	6,384,060	31,678,308
Temporarily restricted	50,034,790	378,434	50,413,224
Permanently restricted	64,787,072	26,905,870	91,692,942
	<u>140,116,110</u>	<u>33,668,364</u>	<u>173,784,474</u>
Total net assets			
	<u>170,340,128</u>	<u>33,689,709</u>	<u>204,029,837</u>
Total liabilities and net assets	\$		

See accompanying independent auditors' report.

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

Combining Schedule - Statement of Activities

Year ended June 30, 2001

	<u>The University of Cincinnati Foundation</u>	<u>The Endowment Fund Association</u>	<u>Combined</u>
Revenues and other additions:			
Contributions:			
University	\$ 21,699,625	—	21,699,625
Foundation	101,058	—	101,058
University fee	1,662,283	—	1,662,283
Assessment fee	4,518,841	—	4,518,841
Rental and other income	920,756	—	920,756
Investment income:			
Dividend and interest income	2,467,540	1,571,280	4,038,820
Net unrealized and realized losses	(9,642,332)	(2,886,717)	(12,529,049)
Reclassification of contributions pursuant to donor stipulation	1,190,809	(1,190,809)	—
Total revenues and other additions	<u>22,918,580</u>	<u>(2,506,246)</u>	<u>20,412,334</u>
Expenses and other deductions:			
Distributed to or for the University of Cincinnati	15,678,751	1,541,958	17,220,709
Operating expenses	8,563,444	—	8,563,444
Assessment fee	243,363	349,306	592,669
Total expenses	<u>24,485,558</u>	<u>1,891,264</u>	<u>26,376,822</u>
Change in present value of annuities payable	226,307	—	226,307
Total expenses and other deductions	<u>24,711,865</u>	<u>1,891,264</u>	<u>26,603,129</u>
Change in net assets	(1,793,285)	(4,397,510)	(6,190,795)
Net assets, beginning of year	<u>141,909,395</u>	<u>38,065,874</u>	<u>179,975,269</u>
Net assets, end of year	<u>\$ 140,116,110</u>	<u>33,668,364</u>	<u>173,784,474</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, 2001 and 2000

	<b>Foundation Operations</b>	<b>College/ University Expenses</b>	<b>2001</b>	<b>Total 2000</b>
Salaries and wages	\$ 3,978,578	224,241	4,202,819	3,942,528
Fringe benefits	1,095,904	66,383	1,162,287	1,107,644
Provision for losses on pledges receivable	—	570,684	570,684	447,623
Promotional materials and events	433,666	—	433,666	426,047
Depreciation and amortization	328,415	58,838	387,253	366,647
Professional services	280,643	—	280,643	431,492
Building lease	255,371	—	255,371	214,904
Telephone and postage	242,315	4,129	246,444	283,618
Travel	196,443	—	196,443	233,891
Development and recruiting	128,116	—	128,116	101,621
Computer and word processing	124,003	—	124,003	132,496
Business meetings	108,753	—	108,753	114,893
Direct marketing	101,002	—	101,002	—
Miscellaneous	68,287	12,036	80,323	108,618
Cleaning	54,930	—	54,930	49,482
Supplies	42,023	—	42,023	82,820
Utilities, repairs and maintenance	40,436	475	40,911	61,086
Resource materials	40,373	—	40,373	51,548
Public relations	35,110	—	35,110	—
Copying charges	29,948	—	29,948	34,339
Parking	23,679	—	23,679	19,278
Insurance	18,663	—	18,663	18,513
	<u>\$ 7,626,658</u>	<u>936,786</u>	<u>8,563,444</u>	<u>8,229,088</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, 2001

	<u>Gifts and Transfers</u>	<u>Foundation Operations</u>	<u>Total</u>
Revenues and other additions:			
Contributions –			
University	\$ 583,796	—	583,796
University fee	—	1,604,866	1,604,866
Assessment fee	—	4,518,841	4,518,841
Rental and other income	—	135,416	135,416
Investment income:			
Dividend and interest income	191,912	628,239	820,151
Net unrealized and realized gains (losses)	(11,407,138)	6,848	(11,400,290)
Reclassification of contributions pursuant to donor stipulation	(2,786,946)	60,034	(2,726,912)
Net assets released from restrictions – Satisfaction of donor restrictions	<u>17,609,179</u>	<u>—</u>	<u>17,609,179</u>
Total revenues and other additions	<u>4,190,803</u>	<u>6,954,244</u>	<u>11,145,047</u>
Expenses:			
Distributed to or for the University of Cincinnati	17,220,709	—	17,220,709
Operating expenses	936,786	7,626,658	8,563,444
Assessment fee	<u>592,669</u>	<u>—</u>	<u>592,669</u>
Total expenses	18,750,164	7,626,658	26,376,822
Change in net assets	(14,559,361)	(672,414)	(15,231,775)
Net assets, beginning of year	<u>44,940,432</u>	<u>1,969,651</u>	<u>46,910,083</u>
Net assets, end of year	<u>\$ 30,381,071</u>	<u>1,297,237</u>	<u>31,678,308</u>

See accompanying independent auditors' report.

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**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 24, 2001

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1600 PNC Center  
201 East Fifth Street  
Cincinnati, OH 45202

**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, 2001, and have issued our report thereon, dated August 24, 2001. 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 solely for the information and use of the Board of Trustees and management of The Foundation and Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

August 24, 2001





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**THE UNIVERSITY OF CINCINNATI FOUNDATION**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 8, 2002**