

FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

The University of Cincinnati Foundation
June 30, 2006 and 2005
With Report of Independent Auditors



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Report of Independent Auditors* of the University of Cincinnati Foundation, Hamilton County, prepared by Ernst & Young LLP, for the audit period July 1, 2005 through June 30, 2006. 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 black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 6, 2006

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The University of Cincinnati Foundation
Financial Statements and Supplementary Schedules

June 30, 2006 and 2005

Contents

Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplementary Schedules	
Report of Independent Auditors on Supplementary Schedules	16
Schedule of Detail of Operating Expenses	17
Schedule of Activities – Unrestricted Net Assets.....	18

Report of Independent Auditors

The Board of Trustees
The University of Cincinnati Foundation

We have audited the statements of financial position of The University of Cincinnati Foundation (the Foundation) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2006 and 2005, and the statements of activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 audits.



September 25, 2006

The University of Cincinnati Foundation

Statements of Financial Position

	June 30	
	2006	2005
Assets		
Cash	\$ 8,375,862	\$ 3,694,940
Due from University of Cincinnati	2,667,921	2,461,091
Life insurance receivable	1,000,000	-
Stock proceeds receivable	10,254,514	94,775
Prepaid expenses	135,874	144,246
Pledges receivable, net of allowance <i>(Note 5)</i>	44,869,782	60,583,743
Accrued interest receivable	2,709,007	848,976
Cash surrender value of life insurance policies <i>(Note 6)</i>	874,768	1,223,027
Other	11,537	2,307
Investments, at fair value <i>(Note 7)</i> :		
Cash equivalents	4,766,189	4,810,871
Mutual funds	103,666,844	85,022,917
Domestic common stocks	59,230,086	63,924,219
U.S. Government and agency obligations	7,003,755	12,086,696
Corporate bonds	6,046,002	11,064,430
Municipal obligations	117,707	135,784
Foreign stocks	-	284,943
Real estate and community development	31,209,580	21,542,171
Total investments	212,040,163	198,872,031
Investment property, net of accumulated depreciation of approximately \$1,065,000 in 2006 and \$1,006,000 in 2005	977,548	831,688
Property and equipment:		
Leasehold improvements, net of accumulated amortization of approximately \$340,000 in 2006 and \$289,000 in 2005	176,687	220,955
Equipment and automobile, net of accumulated depreciation of approximately \$1,518,000 in 2006 and \$1,389,000 in 2005	345,657	443,901
Total assets	\$ 284,439,320	\$ 269,421,680
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 1,182,989	\$ 414,456
Payment due to Health Alliance - Lindner Center	10,174,828	-
Accrued liabilities	154,435	177,758
Accrued compensated absences	269,562	231,440
Agency payable <i>(Note 2)</i>	1,229,544	1,055,340
Refundable deposits	754,201	732,832
Due to University of Cincinnati <i>(Note 10)</i>	-	119,889
Accrued interest income due to investment pool	2,478,253	493,710
Present value of annuities payable <i>(Note 14)</i>	8,415,523	8,590,598
Total liabilities	24,659,335	11,816,023
Net assets:		
Unrestricted	26,356,115	19,174,238
Temporarily restricted <i>(Note 3)</i>	70,087,137	84,669,711
Permanently restricted <i>(Note 4)</i>	163,336,733	153,761,708
Total net assets	259,779,985	257,605,657
Total liabilities and net assets	\$ 284,439,320	\$ 269,421,680

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statement of Activities

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 643,942	\$ 26,063,508	\$ 5,892,330	\$ 32,599,780
Foundation	–	26,303	–	26,303
University fee (Note 11)	780,845	54,764	–	835,609
Assessment fee (Note 12)	9,328,863	–	–	9,328,863
Other income	187	847,077	273,425	1,120,689
Investment income:				
Dividend and interest income	967,510	6,939,735	152,978	8,060,223
Net unrealized and realized gains	14,502,970	2,600,315	–	17,103,285
Reclassification of contributions pursuant to donor stipulations	(5,907,939)	2,644,568	3,263,371	–
Net assets released from restrictions:				
Satisfaction of donor restrictions	53,101,897	(53,101,897)	–	–
Total revenues and other additions	<u>73,418,275</u>	<u>(13,925,627)</u>	<u>9,582,104</u>	<u>69,074,752</u>
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	51,097,141	–	–	51,097,141
Operating expenses	13,228,232	–	–	13,228,232
Assessment fee (Note 12)	1,911,025	–	–	1,911,025
Total expenses	<u>66,236,398</u>	<u>–</u>	<u>–</u>	<u>66,236,398</u>
Change in present value of annuities payable	–	656,947	7,079	664,026
Total expenses and other deductions	<u>66,236,398</u>	<u>656,947</u>	<u>7,079</u>	<u>66,900,424</u>
Change in net assets	7,181,877	(14,582,574)	9,575,025	2,174,328
Net assets, beginning of year	19,174,238	84,669,711	153,761,708	257,605,657
Net assets, end of year	<u>\$ 26,356,115</u>	<u>\$ 70,087,137</u>	<u>\$ 163,336,733</u>	<u>\$ 259,779,985</u>

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statement of Activities

Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 317,593	\$ 34,187,058	\$ 15,582,414	\$ 50,087,065
Foundation	–	20,074	–	20,074
University fee (Note 11)	335,437	57,417	–	392,854
Assessment fee (Note 12)	9,098,585	–	–	9,098,585
Other income	55	716,455	1,041,111	1,757,621
Investment income:				
Dividend and interest income	976,801	4,396,513	135,761	5,509,075
Net unrealized and realized gains	9,772,273	1,371,082	–	11,143,355
Reclassification of contributions pursuant to donor stipulations	(4,935,433)	4,237,147	698,286	–
Net assets released from restrictions:				
Satisfaction of donor restrictions	39,709,579	(39,709,579)	–	–
Total revenues and other additions	<u>55,274,890</u>	<u>5,276,167</u>	<u>17,457,572</u>	<u>78,008,629</u>
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	40,273,676	–	–	40,273,676
Operating expenses	11,669,797	–	–	11,669,797
Assessment fee (Note 12)	1,764,090	–	–	1,764,090
Total expenses	<u>53,707,563</u>	<u>–</u>	<u>–</u>	<u>53,707,563</u>
Change in present value of annuities payable	–	736,583	73,053	809,636
Total expenses and other deductions	<u>53,707,563</u>	<u>736,583</u>	<u>73,053</u>	<u>54,517,199</u>
Change in net assets	1,567,327	4,539,584	17,384,519	23,491,430
Net assets, beginning of year	<u>17,606,911</u>	<u>80,130,127</u>	<u>136,377,189</u>	<u>234,114,227</u>
Net assets, end of year	<u>\$ 19,174,238</u>	<u>\$ 84,669,711</u>	<u>\$ 153,761,708</u>	<u>\$ 257,605,657</u>

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Statements of Cash Flows

	Year Ended June 30	
	2006	2005
Operating activities:		
Payments to or for the University of Cincinnati	\$ (38,137,075)	\$ (40,313,567)
University fees, assessment fees and other	8,166,449	9,454,979
Cash paid for compensation	(7,646,197)	(7,092,973)
Cash received for gifts	29,511,344	28,696,299
Investment income available for distribution	6,147,372	5,241,242
Cash paid for operating expenses	(2,909,455)	(2,575,228)
Net cash used in operating activities	(4,867,562)	(6,589,248)
Investing activities:		
Proceeds from sale of investments	32,747,140	25,598,163
Purchase of investments	(29,063,089)	(35,292,465)
Purchase of property and equipment	(125,399)	(116,553)
Net cash provided by (used in) investing activities	3,558,652	(9,810,855)
Financing activities:		
Proceeds from contributions to endowment and similar funds	5,892,330	15,582,414
Investment income restricted for reinvestment	52,820	37,625
Net cash provided by financing activities	5,945,150	15,620,039
Net increase (decrease) in cash and cash equivalents	4,636,240	(780,064)
Cash and cash equivalents, beginning of year	8,505,811	9,285,875
Cash and cash equivalents, end of year	\$ 13,142,051	\$ 8,505,811
Reconciliation of change in net assets to net cash used in operating activities:		
Increase in net assets	\$ 2,174,328	\$ 23,491,430
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	2,481,360	1,613,602
Depreciation and amortization	328,472	354,836
Increase in due from University of Cincinnati	(206,830)	(28,304)
Increase in accrued interest receivable	(1,860,031)	(230,209)
(Increase) decrease in stock proceeds receivable	(10,159,739)	348,789
Decrease (increase) in prepaid expenses	8,372	(6,016)
Decrease (increase) in pledges receivable	13,232,601	(5,493,891)
Decrease (increase) in cash surrender value of life insurance policies	348,259	(234,986)
(Increase) decrease in other assets	(9,230)	4,330
Increase in life insurance benefits receivable	(1,000,000)	-
Increase in accounts payable	12,927,904	36,480
(Decrease) increase in accrued liabilities	(23,323)	93,114
Increase (decrease) in accrued compensation absences	38,122	(16,436)
Increase in agency payable	174,204	93,954
Increase in refundable deposits	21,369	14,570
Decrease in due to University of Cincinnati	(119,889)	(119,889)
(Decrease) increase in present value of annuities payable	(175,075)	252,772
Contributions to endowment and similar funds	(5,892,330)	(15,582,414)
Investment income restricted for reinvestment	(52,820)	(37,625)
Net gain on investments	(17,103,286)	(11,143,355)
Net cash used in operating activities	\$ (4,867,562)	\$ (6,589,248)

See accompanying notes to financial statements.

The University of Cincinnati Foundation

Notes to Financial Statements

June 30, 2006 and 2005

1. Organization

The University of Cincinnati Foundation (the Foundation) is a not-for-profit organization that operates exclusively for the benefit of the University of Cincinnati (the University). Its principal function is to solicit, receive, hold, invest and administer funds and to make distributions to or for the benefit of the University.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation, which are presented on the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. The Foundation maintains 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/or the passage of time.

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

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 2006, the Foundation had released approximately \$53,102,000 in restricted assets (\$7,954,000 for operations, maintenance, plant, \$20,415,000 for college/programs, \$5,729,000 for instruction, \$4,611,000 for auxiliary, \$3,610,000 for scholarship, \$3,493,000 for academic support, and \$7,290,000 for other). In 2005, the Foundation released approximately \$39,710,000 in restricted assets (\$11,990,000 for operations, maintenance, plant, \$9,528,000 for college/programs, \$3,944,000 for instruction, \$4,380,000 for auxiliary, \$3,755,000 for scholarship, \$2,702,000 for academic support, and \$3,411,000 for other).

Contributions received by the Foundation for the benefit of the University are classified as University contributions on the Statements of Activities. Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restriction from temporarily restricted net assets to unrestricted net assets. If a donor requests a change in purpose or time period for use of funds, the change is recorded as a reclassification of contributions pursuant to donor stipulations on the 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

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

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

Plough Foundation

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

The amount of unrestricted funds, which would return to the Foundation, was approximately \$86,000 and \$124,000 as of June 30, 2006 and 2005, respectively. The Foundation has recorded these amounts as an amount due from the University as of June 30, 2006 and 2005, respectively.

Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2006 and 2005, approximately \$12,213,000 and \$7,191,000, respectively, of cash and cash equivalents are in excess of federally insured limits.

Investment Securities

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 2006 and 2005 was approximately \$198,225,000 and \$188,477,000, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investment Property

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

Property and Equipment

Property and equipment are recorded at cost (or fair market value in the case of a gift) less accumulated depreciation and amortization. The estimated useful lives are principally four years for automobile and computer equipment, five years for office equipment, and ten years for software. All assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Agency Transactions

The Foundation has received funds whereby the Foundation is named as the trustee of the related assets. The gift arrangements direct the Foundation to distribute portions of the related assets to other charitable organizations when restrictions are met. A portion of the assets will benefit the Foundation. The amount of assets that are due to other third party organizations is recorded as a payable of approximately \$1,230,000 and \$1,055,000 at June 30, 2006 and 2005, respectively.

Income Taxes

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

Use of Estimates

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

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

3. Temporarily Restricted Net Assets

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

	<u>2006</u>	<u>2005</u>
Capital Projects	\$ 11,810,119	\$ 23,071,120
College/ Programs	21,929,050	18,353,844
Instruction	6,280,385	9,113,391
Scholarship	8,707,602	9,137,571
Academic Support	9,272,056	8,581,264
Auxiliary	4,544,782	5,750,046
Research	1,066,165	758,989
Annuity and Life Income Funds	4,526,878	4,676,984
Other	1,950,100	5,226,502
Total temporarily restricted net assets	<u>\$ 70,087,137</u>	<u>\$ 84,669,711</u>

4. Permanently Restricted Net Assets

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

	<u>2006</u>	<u>2005</u>
College/ Programs	\$ 65,143,581	\$ 60,731,517
Instruction	21,065,778	22,335,869
Scholarship	26,629,826	24,319,581
Academic Support	29,229,950	26,492,928
Auxiliary	6,493,211	5,878,033
Research	7,590,238	7,695,867
Annuity and Life Income Funds	2,736,655	2,835,053
Other	4,447,494	3,472,860
Total permanently restricted net assets	<u>\$ 163,336,733</u>	<u>\$ 153,761,708</u>

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

5. Pledges Receivable

Contributors to the Foundation have made unconditional pledges totaling approximately \$72,453,000 and \$90,296,000 as of June 30, 2006 and 2005, respectively. These pledges receivable have been discounted at a rate of 6.00% in 2006 and 2005, to a net present value of approximately \$46,679,000 and \$62,727,000 as of June 30, 2006 and 2005, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	<u>2006</u>	<u>2005</u>
Less than one year	\$ 15,209,944	\$ 29,440,063
One to five years	13,642,343	16,340,847
More than five years	17,826,495	16,945,833
Subtotal	<u>46,678,782</u>	<u>62,726,743</u>
Less allowance for uncollectible pledges	<u>1,809,000</u>	<u>2,143,000</u>
Total	<u>\$ 44,869,782</u>	<u>\$ 60,583,743</u>

Amounts due from irrevocable bequests and other trusteed assets as of June 30, 2006 and 2005 of approximately \$13,857,000 and \$13,060,000, respectively, are included in the total amount of unconditional pledges due in more than five years.

Six donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2006, 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 \$14,354,000 and \$1,107,000 as of June 30, 2006 and 2005 respectively.

6. Life Insurance Policies

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the Statements of Financial Position. The cash surrender value represents the amount the Foundation, as beneficiary, would realize if such policies were surrendered as of June 30, 2006 and 2005. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated \$4,503,000 and \$6,115,000 as of June 30, 2006 and 2005, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

7. Investments

In July 2002, the Foundation combined its pooled investment securities with the investment pool of the University. This action was taken to maximize investment diversification and realize economies of scale with respect to costs of managing the investments. The Foundation continues to serve as trustee for these assets. The Foundation maintains individual records of each fund included in the transfer of assets to the investment pool of the University. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each quarter. Income is allocated to each fund in the pool based on units of participation. The value of the pooled investments approximated \$171,491,000 and \$148,815,000 as of June 30, 2006 and 2005, respectively.

The investment pool includes investments in private equity funds and hedge funds without readily determinable fair values. These investments are valued based upon judgments by the fund or partnership managers and respective valuation committees that include original costs, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transaction. In management's opinion, the stated values approximate fair value as determined by the respective managers. Due to the inherent uncertainty of valuation, the estimated fair values may differ significantly from values that would have been used had a readily available market value for the investments existed, and the differences could be material.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income earned in the investment pool to 5.00% of the moving average market value for the twelve-quarter period ended each December. Earnings above this limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2006 and 2005, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$5,873,000 and \$5,052,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2006 and 2005.

The Foundation also manages other investments, which amounted to approximately \$40,549,000 and \$50,057,000 as of June 30, 2006 and 2005, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

8. Equipment and Automobile

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

	<u>2006</u>	<u>2005</u>
Office equipment	\$ 637,008	\$ 625,113
Software	796,194	783,992
Automobile	17,980	17,980
Computer equipment	412,312	405,324
	<u>1,863,494</u>	<u>1,832,409</u>
Accumulated depreciation and amortization	(1,517,837)	(1,388,508)
	<u>\$ 345,657</u>	<u>\$ 443,901</u>

9. Leases

Rental expense for operating leases was approximately \$245,470 and \$254,000 in 2006 and 2005, respectively. The Foundation leases certain office space directly from the University. Rental expense for this office space recognized in the Statements of Activities was approximately \$239,470 and \$239,470 in 2006 and 2005, respectively.

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

	<u>Operating Leases</u>
2007	\$ 239,470
2008	239,470
2009	239,470
2010	239,470
2011	239,470
Thereafter	3,172,980
Total minimum lease payments	<u>\$ 4,370,330</u>

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

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, 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 for the cost of equipment and improvements associated with the move of the Foundation's office in 2000. The payments were made in equal annual amounts of approximately \$120,000 with the final payment made in July 2005. As of June 30, 2006 and 2005, the recorded amount of the non-interest bearing obligation was approximately \$0 and \$120,000, respectively. As of June 30, 2005, the fair value of the obligation was approximately \$120,000.

11. University Fee

In accordance with an agreement with the University, the Foundation receives interest income earned on unexpended gift fund balances held at the University. The Foundation also receives reimbursement from certain colleges of the University for salaries and fringe benefits paid to college development employees below the director level.

12. Assessment Fee

The Foundation is primarily funded by a fee assessed on certain endowment funds held by the University and the Foundation. Funds that are eligible for the fee assessment include quasi-endowment funds, funds that are broadly restricted by college or department, funds whereby the donor has given permission to assess the fee, and unrestricted funds that do not have an internal designation. The gross assessment rate for 2006 and 2005 was 1.85%. Revenue to the Foundation from the fee was approximately \$9,329,000 and \$9,099,000 in 2006 and 2005, respectively, and is used to fund Foundation operations. Approximately \$1,911,000 and \$1,764,000 of this fee was recorded from funds held by the Foundation in 2006 and 2005, respectively.

The University of Cincinnati Foundation

Notes to Financial Statements (continued)

13. Retirement Plan

The Foundation participates in a retirement plan (TIAA/CREF) covering employees who meet length of service requirements. Under this arrangement, the Foundation and plan participants make annual contributions to purchase individual annuities equivalent to retirement benefits earned. The Foundation's share of the cost of these benefits was approximately \$474,000 and \$458,000 in 2006 and 2005, 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:

	<u>2006</u>	<u>2005</u>
Annuities		
Investments, at fair value	\$ 1,531,415	\$ 1,222,063
Less present value of annuities payable	<u>1,090,472</u>	<u>951,878</u>
	<u>\$ 440,943</u>	<u>\$ 270,185</u>
	<u>2006</u>	<u>2005</u>
Trusts		
Investments, at fair value	\$ 16,740,668	\$ 16,748,501
Less present value of amounts payable from trusts	<u>7,325,051</u>	<u>7,638,720</u>
	<u>\$ 9,415,617</u>	<u>\$ 9,109,781</u>

Report of Independent Auditors on Supplemental Schedules

The Board of Trustees
The University of Cincinnati Foundation

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Detail of Operating Expenses and Schedule of Activities – Unrestricted Net Assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst + Young LLP

September 25, 2006

The University of Cincinnati Foundation

Schedule of Detail of Operating Expenses

Years Ended June 30, 2006 and 2005

	Foundation Operations	College/ University Expenses	Total 2006	Total 2005
Salaries and wages	\$ 5,464,310	\$ 242,479	\$ 5,706,789	\$ 5,382,486
Fringe benefits	1,873,335	80,873	1,954,208	1,787,163
Professional services	892,556	-	892,556	774,817
Provision for losses on pledges receivable	-	2,481,360	2,481,360	1,613,602
Depreciation and amortization	269,633	58,838	328,471	354,834
Travel	197,633	-	197,633	265,562
Building lease	245,470	-	245,470	253,872
Telephone and postage	250,555	2,161	252,716	247,808
Promotional materials and events	202,170	-	202,170	235,939
Business meetings	134,112	-	134,112	127,491
Computer and word processing	114,188	-	114,188	111,904
Development and recruiting	258,196	-	258,196	110,644
Cleaning	69,356	-	69,356	67,896
Direct marketing	43,759	-	43,759	44,783
Miscellaneous	64,170	1,143	65,313	69,205
Utilities, repairs and maintenance	43,354	-	43,354	41,680
Resource materials	35,936	-	35,936	35,149
Public relations	22,274	-	22,274	29,609
Supplies	32,137	-	32,137	31,356
Copying charges	38,567	-	38,567	25,144
Parking	33,241	130	33,371	33,604
Insurance	29,896	-	29,896	25,249
Gift annuity reserve - Florida	46,400	-	46,400	-
	\$ 10,361,248	\$ 2,866,984	\$ 13,228,232	\$ 11,669,797

The University of Cincinnati Foundation

Schedule of Activities - Unrestricted Net Assets

Year Ended June 30, 2006

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions:			
University	\$ 643,942	\$ -	\$ 643,942
University fee	-	780,845	780,845
Assessment fee	-	9,328,863	9,328,863
Other income	187	-	187
Investment income:			
Dividend and interest income	376,274	591,236	967,510
Net unrealized and realized gains (losses)	14,546,898	(43,928)	14,502,970
Reclassification of contributions pursuant to donor stipulation	(6,018,213)	110,274	(5,907,939)
Net assets released from restrictions:			
Satisfaction of donor restrictions	53,101,897	-	53,101,897
Total revenues and other additions	<u>62,650,985</u>	<u>10,767,290</u>	<u>73,418,275</u>
Expenses and other deductions:			
Distributions to or for the University of Cincinnati	51,097,141	-	51,097,141
Operating expenses	2,866,984	10,361,248	13,228,232
Assessment fee	1,911,025	-	1,911,025
Total expenses and deductions	<u>55,875,150</u>	<u>10,361,248</u>	<u>66,236,398</u>
Change in net assets	6,775,835	406,042	7,181,877
Net assets, beginning of year	16,254,595	2,919,643	19,174,238
Net assets, end of year	<u>\$ 23,030,430</u>	<u>\$ 3,325,685</u>	<u>\$ 26,356,115</u>

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
*Government Auditing Standards***

The Audit Committee of the Board of the Board of Trustees
University of Cincinnati Foundation

We have audited the financial statements of the University of Cincinnati Foundation (the Foundation) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP



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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
DECEMBER 19, 2006**