



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

Combined Financial Statements and Supplementary Schedules

June 30, 1999 and 1998

With Independent Auditors' Report Thereon



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AND THE ENDOWMENT FUND ASSOCIATION**

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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 and The Endowment Fund Association, Hamilton County, prepared by KPMG LLP, for the audit period July 1, 1998 through June 30, 1999. 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 The Endowment Fund Association is responsible for compliance with these laws and regulations.



JIM PETRO  
Auditor of State

January 4, 2000



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, 1999 and 1998, 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 generally accepted auditing standards 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, 1999 and 1998, and the related changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 1999 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.

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, 1999



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a member of KPMG International, a Swiss association.

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

Combined Statements of Financial Position

June 30, 1999 and 1998

Assets	1999	1998
Assets:		
Cash	\$ 2,289,186	2,051,220
Due from University of Cincinnati	1,442,388	1,343,056
Accrued interest receivable	368,802	367,095
Stock proceeds receivable	15,394	105,385
Prepaid expenses	120,428	129,740
Pledges receivable, net of allowance (note 5)	36,262,057	29,183,441
Notes receivable	72,072	129,231
Cash surrender value of life insurance policies (note 6)	1,216,883	1,141,113
Other	9,541	170,123
Investments, at fair value (note 7):		
Cash equivalents	3,630,178	15,586,722
Mutual funds	42,232,131	35,875,656
Corporate stocks	90,260,566	70,101,642
Foreign stocks and obligations	81,492	68,723
U.S. Government and agency obligations	5,741,162	6,472,137
Corporate bonds	7,130,700	4,951,137
Municipal obligations	239,316	272,651
Total investments	149,315,545	133,328,668
Investment property, net of accumulated depreciation of \$652,275 in 1999 and \$593,436 in 1998	1,362,723	1,402,811
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$494,963 in 1999 and \$484,655 in 1998	—	9,808
Equipment and automobile, net of accumulated depreciation of \$720,697 in 1999 and \$499,359 in 1998 (note 8)	899,677	1,039,816
Total assets	\$ 193,374,696	170,401,507
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 942,124	764,404
Accrued liabilities	179,666	167,690
Accrued compensated absences	179,195	190,298
Agency payable	15,742,165	13,519,047
Refundable deposits	924,885	937,820
Obligations under capital leases (note 9)	143,693	197,345
Present value of annuities payable	9,021,432	6,533,118
Total liabilities	27,133,160	22,309,722
Net assets:		
Unrestricted	42,701,754	37,332,010
Temporarily restricted (note 3)	48,781,546	45,478,429
Permanently restricted (note 4)	74,758,236	65,281,346
Total net assets	166,241,536	148,091,785
Total liabilities and net assets	\$ 193,374,696	170,401,507

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	15,666,766	(15,666,766)	—	—
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)	663,858	—	—	663,858
Total expenses	23,413,448	—	—	23,413,448
Change in actuarial liability	—	406,168	15,937	422,105
Total expenses and other deductions	23,413,448	406,168	15,937	23,835,553
Change in net assets	5,369,744	3,303,117	9,476,890	18,149,751
Net assets, beginning of year	37,332,010	45,478,429	65,281,346	148,091,785
Net assets, end of year	\$ 42,701,754	48,781,546	74,758,236	166,241,536

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, 1998

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other additions:				
Contributions:				
University	\$ 456,896	11,543,107	14,085,982	26,085,985
Foundation	—	137,955	—	137,955
University fee (note 11)	1,786,072	57,417	—	1,843,489
Assessment fee (note 12)	3,943,900	—	—	3,943,900
Rental and other income	338,008	1,398,712	54,756	1,791,476
Investment income:				
Dividend and interest income	669,698	2,748,915	20,303	3,438,916
Net unrealized and realized gains	12,256,295	2,420,329	—	14,676,624
Reclassification of contributions pursuant to donor stipulation	(1,718,093)	1,091,564	626,529	—
Net assets released from restrictions – Satisfaction of donor restrictions	14,595,232	(14,595,232)	—	—
<b>Total revenues and other additions</b>	<b>32,328,008</b>	<b>4,802,767</b>	<b>14,787,570</b>	<b>51,918,345</b>
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	14,133,852	—	—	14,133,852
Operating expenses	7,714,246	—	—	7,714,246
Assessment fee (note 12)	537,608	—	—	537,608
<b>Total expenses</b>	<b>22,385,706</b>	<b>—</b>	<b>—</b>	<b>22,385,706</b>
Change in actuarial liability	—	497,497	97,911	595,408
<b>Total expenses and other deductions</b>	<b>22,385,706</b>	<b>497,497</b>	<b>97,911</b>	<b>22,981,114</b>
Change in net assets	9,942,302	4,305,270	14,689,659	28,937,231
Net assets, beginning of year	27,389,708	41,173,159	50,591,687	119,154,554
Net assets, end of year	<u>\$ 37,332,010</u>	<u>45,478,429</u>	<u>65,281,346</u>	<u>148,091,785</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, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Payments to or for the University of Cincinnati	\$ (15,222,530)	(14,133,852)
University fees, assessment fees and other	6,407,447	6,558,648
Cash paid for compensation	(4,902,565)	(4,887,281)
Cash received for gifts	14,729,498	16,077,590
Investment income available for distribution	3,199,517	3,370,745
Cash received from sales and services	266,021	327,511
Cash paid for operating expenses	(1,781,349)	(2,456,874)
Net cash provided by operating activities	<u>2,696,039</u>	<u>4,856,487</u>
Cash flows from investing activities:		
Proceeds from sale of investments	49,748,650	28,432,989
Purchase of investments	(70,448,100)	(31,750,979)
Purchase of property and equipment	(99,264)	(512,737)
Net cash used by investing activities	<u>(20,798,714)</u>	<u>(3,830,727)</u>
Cash flows from financing activities:		
Proceeds from contributions to endowment and similar funds	6,399,702	10,093,002
Payments on capital lease obligation	(53,652)	(50,539)
Investment income restricted for reinvestment	38,047	44,723
Net cash provided by financing activities	<u>6,384,097</u>	<u>10,087,186</u>
Net increase (decrease) in cash and cash equivalents	(11,718,578)	11,112,946
Cash and cash equivalents, beginning of year	17,637,942	6,524,996
Cash and cash equivalents, end of year	<u>\$ 5,919,364</u>	<u>17,637,942</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Increase in net assets	\$ 18,149,751	28,937,231
Adjustments to reconcile increase in net assets to increase in net cash provided (used) by operating activities:		
Provision for losses on pledges receivable	375,090	309,422
Depreciation and amortization	308,075	330,852
Increase in due from University of Cincinnati	(99,332)	(100,054)
Increase in accrued interest receivable	(1,707)	(23,448)
Decrease in stock proceeds receivable	89,991	21,471
Decrease (increase) in prepaid expenses	9,312	(17,520)
Decrease (increase) in pledges receivable	(7,453,706)	2,519,697
Decrease in notes receivable	57,159	36,489
Increase in cash surrender value of life insurance policies	(75,770)	(70,240)
Decrease (increase) in other assets	160,582	(39,460)
Increase (decrease) in accounts payable	177,720	(272,168)
Increase in accrued liabilities	11,976	13,101
Increase (decrease) in accrued compensated absences	(11,103)	22,633
Increase (decrease) in agency payable	2,223,118	(6,201,281)
Increase (decrease) in refundable deposits	(12,935)	86,981
Increase in present value of annuities payable	2,488,314	4,115,191
Contributions to endowment and similar funds	(6,399,702)	(10,093,002)
Investment income restricted for reinvestment	(38,047)	(44,723)
Net gain on investments	(7,262,747)	(14,674,685)
Net cash provided by operating activities	<u>\$ 2,696,039</u>	<u>4,856,487</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, 1999 and 1998

**(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. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has

**THE UNIVERSITY OF CINCINNATI FOUNDATION  
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Notes to Combined Financial Statements

June 30, 1999 and 1998

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 \$270,492 and \$297,163 as of June 30, 1999 and 1998, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 1999 and 1998, 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, 1999 and 1998

***Investment Securities***

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 1999 and 1998 was \$117,770,000 and \$101,330,000.

***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 1998 amounts have been reclassified to conform with the 1999 presentation.

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

Notes to Combined Financial Statements

June 30, 1999 and 1998

**(3) Temporarily Restricted Net Assets**

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

	<b>1999</b>	<b>1998</b>
Unexpended contributions for restricted purposes	\$ 33,985,343	32,316,776
Pledges receivable	10,995,881	10,088,046
Annuity and life income funds	3,800,322	3,073,607
Total temporarily restricted net assets	\$ 48,781,546	45,478,429

**(4) Permanently Restricted Net Assets**

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

	<b>1999</b>	<b>1998</b>
Endowment funds	\$ 62,492,975	56,188,803
Pledges receivable	9,121,665	6,580,426
Annuity and life income funds	3,143,596	2,512,117
Total permanently restricted net assets	\$ 74,758,236	65,281,346

**(5) Pledges Receivable**

Contributors to the Foundation and the Association have made unconditional pledges totaling \$41,757,273 and \$34,082,077 as of June 30, 1999 and 1998, respectively. These pledges receivable have been discounted at a rate of 6% to a net present value of \$37,627,857 and \$30,501,841 as of June 30, 1999 and 1998, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	<b>1999</b>	<b>1998</b>
Less than one year	\$ 19,010,531	13,801,271
One to five years	13,173,860	12,732,784
More than five years	5,443,466	3,967,786
Subtotal	37,627,857	30,501,841
Less allowance for uncollectible pledges	1,365,800	1,318,400
Total	\$ 36,262,057	29,183,441

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

Notes to Combined Financial Statements

June 30, 1999 and 1998

**(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, 1999 and 1998. The face value of these policies, which would be paid only upon death of the insured or maturity of the contracts, approximated \$6,051,000 and \$4,100,000 as of June 30, 1999 and 1998, 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 \$111,419,000 and \$101,000,000 as of June 30, 1999 and 1998, 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 1999 and 1998, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$2,212,000 and \$1,118,000, respectively. This shortfall was funded by appreciation of the investment pool for the years ended June 30, 1999 and 1998.

The Foundation also manages other investments which amounted to approximately \$37,896,000 and \$32,328,000 as of June 30, 1999 and 1998, 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:

	1999	1998
Office equipment	\$ 268,121	265,337
Software	797,962	734,162
Automobile	17,980	17,980
Computer equipment	536,311	521,696
	1,620,374	1,539,175
Less accumulated depreciation	720,697	499,359
	\$ 899,677	1,039,816

**THE UNIVERSITY OF CINCINNATI FOUNDATION  
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Notes to Combined Financial Statements

June 30, 1999 and 1998

**(9) Leases**

The Foundation is obligated under a capital lease for software that expires on November 30, 2001. At June 30, 1999, the gross amount of software and related amortization recorded under the capital lease were \$276,000 and \$37,000, respectively.

The Foundation also has several noncancelable operating leases, primarily for buildings, that expire in fiscal year 2000. Rental expense for operating leases during 1999 and 1998 were \$77,500 and \$84,000, 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, 1999 are:

	<b>Capital Leases</b>	<b>Operating Leases</b>
Year ending June 30,		
2000	\$ 64,015	30,534
2001	64,015	—
2002	26,673	—
Total minimum lease payments	154,703	30,534
Less amount representing interest (at 5.99%)	11,010	
Present value of net minimum capital lease payments	\$ 143,693	

**(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.

**(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.

**THE UNIVERSITY OF CINCINNATI FOUNDATION  
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Notes to Combined Financial Statements

June 30, 1999 and 1998

**(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 1999 and 1998 was 1.25%. Revenue to the Foundation from the fee was approximately \$4,435,000 and \$3,944,000 in fiscal years 1999 and 1998, respectively, and is used to fund the Foundation operations. Approximately \$664,000 and \$538,000 of this fee was recorded from funds held by the Foundation and Association in 1999 and 1998, 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 \$314,000 and \$305,000 in 1999 and 1998, 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:

	1999	1998
Investments, at market	\$ 18,836,892	13,437,611
Present value of annuities payable	9,021,432	6,533,118
	\$ 9,815,460	6,904,493

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

Combining Schedule - Statement of Financial Position

June 30, 1999

<b>Assets</b>	<b>The University of Cincinnati Foundation</b>	<b>The Endowment Fund Association</b>	<b>Combined</b>
Cash	\$ 1,966,504	322,682	2,289,186
Due from University of Cincinnati	1,442,388	—	1,442,388
Accrued interest receivable	340,952	27,850	368,802
Stock proceeds receivable	15,394	—	15,394
Prepaid expenses	120,428	—	120,428
Pledges receivable, net of allowance	36,262,057	—	36,262,057
Notes receivable	72,072	—	72,072
Cash surrender value of life insurance policies	1,216,883	—	1,216,883
Other	9,541	—	9,541
Investments, at market	112,143,090	37,172,455	149,315,545
Investment property, net	1,362,723	—	1,362,723
Property and equipment - Equipment and automobile, net of depreciation of \$720,697	899,677	—	899,677
<b>Total assets</b>	<b>\$ 155,851,709</b>	<b>37,522,987</b>	<b>193,374,696</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 914,274	27,850	942,124
Accrued liabilities	179,666	—	179,666
Accrued compensated absences	179,195	—	179,195
Agency payable	15,742,165	—	15,742,165
Refundable deposit	924,885	—	924,885
Obligations under capital leases	143,693	—	143,693
Present value of annuities payable	9,021,432	—	9,021,432
<b>Total liabilities</b>	<b>27,105,310</b>	<b>27,850</b>	<b>27,133,160</b>
<b>Net assets:</b>			
Unrestricted	32,427,628	10,274,126	42,701,754
Temporarily restricted	48,466,405	315,141	48,781,546
Permanently restricted	47,852,366	26,905,870	74,758,236
<b>Total net assets</b>	<b>128,746,399</b>	<b>37,495,137</b>	<b>166,241,536</b>
<b>Total liabilities and net assets</b>	<b>\$ 155,851,709</b>	<b>37,522,987</b>	<b>193,374,696</b>

See accompanying independent auditors' report.



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

Combining Schedule - Statement of Activities

Year ended June 30, 1999

	<u>The University of Cincinnati Foundation</u>	<u>The Endowment Fund Association</u>	<u>Combined</u>
Revenues and other additions:			
Contributions:			
University	\$ 24,022,171	—	24,022,171
Foundation	194,351	—	194,351
University fee	1,529,422	—	1,529,422
Assessment fee	4,435,408	—	4,435,408
Rental and other income	1,301,934	—	1,301,934
Investment income:			
Dividend and interest income	1,920,716	1,318,555	3,239,271
Net unrealized and realized gains	5,814,613	1,448,134	7,262,747
Reclassification of contributions pursuant to donor stipulation	750,688	(750,688)	—
Total revenues and other additions	<u>39,969,303</u>	<u>2,016,001</u>	<u>41,985,304</u>
Expenses and other deductions:			
Distributed to or for the University of Cincinnati	13,940,576	1,281,955	15,222,531
Operating expenses	7,527,059	—	7,527,059
Assessment fee	305,516	358,342	663,858
Total expenses	<u>21,773,151</u>	<u>1,640,297</u>	<u>23,413,448</u>
Change in actuarial liability	422,105	—	422,105
Total expenses and other deductions	<u>22,195,256</u>	<u>1,640,297</u>	<u>23,835,553</u>
Change in net assets	17,774,047	375,704	18,149,751
Net assets, beginning of year	<u>110,972,352</u>	<u>37,119,433</u>	<u>148,091,785</u>
Net assets, end of year	<u>\$ 128,746,399</u>	<u>37,495,137</u>	<u>166,241,536</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, 1999 and 1998

	<b>Foundation Operations</b>	<b>College/ University Expenses</b>	<b>1999</b>	<b>Total 1998</b>
Salaries and wages	\$ 3,537,187	315,973	3,853,160	3,882,599
Fringe benefits	977,208	73,068	1,050,276	1,040,421
Professional services	338,851	70	338,921	377,758
Provision for losses on pledges receivable	—	375,090	375,090	309,422
Promotional materials and events	371,254	1,371	372,625	542,334
Depreciation and amortization	249,237	58,838	308,075	330,852
Telephone and postage	237,767	4,689	242,456	211,237
Travel	277,511	—	277,511	242,189
Computer and word processing	107,883	42	107,925	161,447
Building lease	84,951	—	84,951	84,409
Business meetings	91,398	—	91,398	103,802
Resource materials	71,596	—	71,596	78,779
Development and recruiting	93,615	—	93,615	79,595
Copying charges	35,074	—	35,074	40,016
Utilities, repairs and maintenance	46,578	2,032	48,610	52,708
Cleaning	37,469	—	37,469	38,483
Supplies	25,496	—	25,496	26,462
Insurance	18,481	—	18,481	17,058
Miscellaneous	74,461	19,869	94,330	94,675
	<u>\$ 6,676,017</u>	<u>851,042</u>	<u>7,527,059</u>	<u>7,714,246</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, 1999

	<u>Gifts and Transfers</u>	<u>Foundation Operations</u>	<u>Total</u>
Revenues and other additions:			
Contributions –			
University	\$ 2,533,239	—	2,533,239
University fee	—	1,472,005	1,472,005
Assessment fee	—	4,435,408	4,435,408
Rental and other income	—	271,774	271,774
Investment income:			
Dividend and interest income	50,248	543,575	593,823
Net unrealized and realized gains	5,881,317	(8,844)	5,872,473
Reclassification of contributions pursuant to donor stipulation	(2,018,662)	(43,634)	(2,062,296)
Net assets released from restrictions – Satisfaction of donor restrictions	15,666,766	—	15,666,766
Total revenues and other additions	<u>22,112,908</u>	<u>6,670,284</u>	<u>28,783,192</u>
Expenses:			
Distributed to or for the University of Cincinnati	15,222,531	—	15,222,531
Operating expenses	851,042	6,676,017	7,527,059
Assessment fee	663,858	—	663,858
Total expenses	<u>16,737,431</u>	<u>6,676,017</u>	<u>23,413,448</u>
Change in net assets	5,375,477	(5,733)	5,369,744
Net assets, beginning of year	<u>35,315,520</u>	<u>2,016,490</u>	<u>37,332,010</u>
Net assets, end of year	<u>\$ 40,690,997</u>	<u>2,010,757</u>	<u>42,701,754</u>

See accompanying independent auditors' report.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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THE UNIVERSITY OF CINCINNATI FOUNDATION AND THE 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.

By: *Susan Babbitt*

Date: **JAN 13 2000**



**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, 1999



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, 1999, and have issued our report thereon, dated August 24, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 24, 1999



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a member of KPMG International, a Swiss association.