The University of Cincinnati Foundation and The Endowment Fund Association

Combined Financial Statements and Supplementary Schedules

June 30, 2002 and 2001 with Report of Independent Auditors

Auditor of State
Betty Montgomery

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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 Ernst & Young LLP for the audit period July 1, 2001 through June 30, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 11, 2003

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Report of Independent Auditors

The Board of Trustees

The University of Cincinnati Foundation
and
The Endowment Fund Association

We have audited the combined statement of financial position of the University of Cincinnati Foundation (the Foundation) and the Endowment Fund Association (the Association) as of June 30, 2002, and the related combined statement of activities, and cash flows for the year then ended. These combined financial statements are the responsibility of the Foundation and Association's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of the Foundation and the Association for the year ended June 30, 2001, were audited by other auditors whose report dated August 24, 2001, expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2002 combined financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and Association as of June 30, 2002, and the statement of activities and its cash flows for the year 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 August 21, 2002 on our consideration of the Foundation's and Association'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 audit.

On July 1, 2001, the Foundation changed its accounting for agency contributions. As a result and as discussed in Note 2 to the financial statements, adjustments have been recorded as increases to permanently restricted, temporarily restricted, and unrestricted net assets as of July 1, 2001.

Ernst + Young LLP

August 21, 2002

The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Statements of Financial Position

	June 30 2002	June 30 2001
Assets		
Cash	**$ 6,145,570**	$ 5,007,202
Due from University of Cincinnati	**1,431,219**	1,397,365
Accrued interest receivable	**359,494**	332,785
Stock proceeds receivable	**61,205**	66,372
Prepaid expenses	**102,236**	99,275
Pledges receivable, net of allowance *(Note 5)*	**36,143,532**	41,391,256
Cash surrender value of life insurance policies *(Note 6)*	**688,991**	1,490,861
Other	**2,600**	14,977
Investments, at fair value *(Note 7):*		
Cash equivalents	**8,461,261**	7,581,516
Mutual funds	**55,942,545**	51,877,838
Corporate stocks	**67,854,726**	79,904,186
Foreign stocks and obligations	**–**	50,548
U.S. Government and agency obligations	**4,413,543**	5,397,784
Corporate bonds	**8,357,203**	7,010,996
Municipal obligations	**225,831**	224,367
Total investments	**145,255,109**	152,047,235
Investment property, net of accumulated depreciation of $829,000 in 2002 and $770,000 in 2001	**777,457**	836,296
Property and equipment:		
Leasehold improvements, net of accumulated amortization of $127,000 in 2002 and $76,000 in 2001	**375,364**	402,293
Equipment and automobile, net of accumulated depreciation of $1,079,000 in 2002 and $1,002,000 in 2001 *(note 8)*	**896,877**	943,920
Total assets	**$ 192,239,654**	$ 204,029,837
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 1,072,196**	$ 562,127
Accrued liabilities	**43,002**	152,906
Accrued compensated absences	**179,349**	191,040
Agency payable *(Note 2)*	**580,452**	18,811,289
Refundable deposits	**690,793**	793,135
Obligations under capital leases *(Note 9)*	**–**	26,278
Due to University of Cincinnati *(Note 10)*	**479,557**	599,446
Present value of annuities payable *(Note 14)*	**9,581,236**	9,109,142
Total liabilities	**12,626,585**	30,245,363
Net assets:		
Unrestricted	**12,061,803**	31,678,308
Temporarily restricted *(Note 3)*	**59,086,872**	50,413,224
Permanently restricted *(Note 4)*	**108,464,394**	91,692,942
Total net assets	**179,613,069**	173,784,474
Total liabilities and net assets	**$ 192,239,654**	$ 204,029,837

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, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 282,239	$ 31,277,379	$ 16,580,225	$ 48,139,843
Foundation	-	82,781	-	82,781
University fee *(Note 11)*	1,397,908	57,417	-	1,455,325
Assessment fee *(Note 12)*	5,234,807	-	-	5,234,807
Other income	150,255	1,194,295	47,649	1,392,199
Investment income:				
Dividend and interest income	831,874	2,719,627	146,080	3,697,581
Net unrealized and realized losses	(12,925,358)	(4,356,508)	-	(17,281,866)
Reclassification of contributions pursuant to donor stipulation	(3,433,363)	3,939,007	(505,644)	-
Net assets released from restrictions-satisfaction of donor restrictions	25,863,950	(25,863,950)	-	-
Total revenues and other additions	17,402,312	9,050,048	16,268,310	42,720,670
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	25,871,163	-	-	25,871,163
Operating expenses	10,248,114	-	-	10,248,114
Assessment fee *(Note 12)*	899,540	-	-	899,540
Total expenses	37,018,817	-	-	37,018,817
Change in present value of annuities payable	-	376,400	(503,142)	(126,742)
Total expenses and other deductions (additions)	37,018,817	376,400	(503,142)	36,892,075
Change in net assets	(19,616,505)	8,673,648	16,771,452	5,828,595
Net assets, beginning of year	31,678,308	50,413,224	91,692,942	173,784,474
Net assets, end of year	$ 12,061,803	$ 59,086,872	$ 108,464,394	$ 179,613,069

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
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 Statements of Cash Flows

	Year ended June 30	
	2002	**2001**
Cash flows from operating activities:		
Payments to or for the University of Cincinnati	**$ (25,416,256)**	$ (17,220,709)
University fees, assessment fees and other	**7,031,507**	6,483,419
Cash paid for compensation	**(5,133,858)**	(5,368,763)
Cash received for gifts	**17,183,405**	13,019,767
Investment income available for distribution	**3,622,227**	4,086,835
Cash received from sales and services	**126,846**	133,872
Cash paid for operating expenses	**(2,169,805)**	(2,543,456)
Net cash used by operating activities	**(4,755,934)**	(1,409,035)
Cash flows from investing activities:		
Proceeds from sale of investments	**131,780,996**	78,423,877
Purchase of investments	**(141,390,991)**	(80,090,802)
Purchase of property and equipment	**(218,548)**	(170,522)
Net cash used by investing activities	**(9,828,543)**	(1,837,447)
Cash flows from financing activities:		
Proceeds from contributions to endowment and similar funds	**16,580,222**	4,620,007
Payments on capital lease obligation	**(26,278)**	(60,461)
Investment income restricted for reinvestment	**48,646**	41,913
Net cash provided by financing activities	**16,602,590**	4,601,459
Net increase in cash and cash equivalents	**2,018,113**	1,354,977
Cash and cash equivalents, beginning of year	**12,588,718**	11,233,741
Cash and cash equivalents, end of year	**$ 14,606,831**	$ 12,588,718
Reconciliation of change in net assets to net cash used by operating activities:		
Increase (decrease) in net assets	**$ 5,828,595**	$ (6,190,795)
Adjustments to reconcile increase (decrease) in net assets to increase in net cash used by operating activities:		
Provision for losses on pledges receivable	**2,779,410**	570,684
Depreciation and amortization	**351,359**	387,253
(Increase) decrease in due from University of Cincinnati	**(33,854)**	114,295
(Increase) decrease in accrued interest receivable	**(26,709)**	89,929
Decrease (increase) in stock proceeds receivable	**5,167**	(26,254)
(Increase) decrease in prepaid expenses	**(2,961)**	4,363
Decrease (increase) in pledges receivable	**2,468,314**	(8,378,940)
Decrease in notes receivable	**–**	36,036
Decrease (increase) in surrender cash value of life insurance policies	**801,870**	(151,294)
Decrease (increase) in other assets	**12,377**	(10,577)
Increase (decrease) in accounts payable	**510,069**	(67,909)
Decrease in accrued liabilities	**(109,904)**	(7,470)
(Decrease) increase in accrued compensation absences	**(11,691)**	3,813
(Decrease) increase in agency payable	**(18,230,837)**	5,136,025
Decrease in refundable deposits	**(102,342)**	(125,916)
Decrease in due to University of Cincinnati	**(119,889)**	(119,889)
Increase (decrease) in present value of annuities payable	**472,094**	(539,518)
Contributions to endowment and similar funds	**(16,580,222)**	(4,620,007)
Investment income restricted for reinvestment	**(48,646)**	(41,913)
Net loss on investments	**17,281,866**	12,529,049
Net cash used by operating activities	**$ (4,755,934)**	$ (1,409,035)

See accompanying notes to combined financial statements..

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements

June 30, 2002 and 2001

1. Organization

The University of Cincinnati Foundation (the Foundation) is a non-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. The University of Cincinnati Endowment Fund Association (the 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 that 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.

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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 must 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 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.

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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 uncollectibles 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 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.

2. Summary of Significant Accounting Policies (continued)

Plough Foundation (continued)

The amount of unrestricted funds, which would return to the Foundation, was $217,680 and $233,800 as of June 30, 2002 and 2001, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 2002 and 2001, respectively.

Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2002 and 2001, $12,475,868 and $10,936,538, 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, 2002 and 2001 was approximately $157,998,000 and $143,800,000, respectively.

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 that 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.

2. Summary of Significant Accounting Policies (continued)

Agency Transactions

As of July 1, 2001, it was determined that the Foundation should be applying Statement of Financial Accounting Standards (SFAS) No. 136, "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*" SFAS No. 136 stipulates that if a recipient organization and a specified beneficiary are financially interrelated organizations and the recipient organization is not a trustee, the recipient organization shall recognize a contribution received when it receives assets (financial or non-financial) from the donor that are specified for the beneficiary. Prior to adoption of SFAS No. 136, the Foundation accounted for these gifts as increases to assets and agency payables. Subsequent distributions were recorded as decreases in these accounts. The effect of this change is reported as contributions of $15,188,000, $2,076,000, and $82,000 to temporarily restricted, permanently restricted, and unrestricted net assets, respectively. Distributions of the related assets to the University are included in the statement of activities as amounts distributed to or for the University of Cincinnati.

In addition to the gifts noted above, 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 other third party organizations is recorded as a payable of $580,452 and $686,011 at June 30, 2002 and 2001, respectively.

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.

2. Summary of Significant Accounting Policies (continued)

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.

Reclassifications

Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

3. Temporarily Restricted Net Assets

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

	2002	**2001**
Unexpended contributions for restricted purposes	**$ 36,437,097**	$ 37,733,452
Pledges receivable	**19,019,723**	9,406,638
Annuity and life income funds	**3,630,052**	3,273,134
Total temporarily restricted net assets	**$ 59,086,872**	$ 50,413,224

4. Permanently Restricted Net Assets

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

	2002	**2001**
Endowment funds	**$ 90,168,127**	$ 75,788,607
Pledges receivable	**15,994,467**	13,132,428
Annuity and life income funds	**2,301,800**	2,771,907
Total permanently restricted net assets	**$108,464,394**	$ 91,692,942

5. Pledges Receivable

Contributors to the Foundation and the Association have made unconditional pledges totaling $51,853,756 and $49,407,811 as of June 30, 2002 and 2001, respectively. These pledges receivable have been discounted at a rate of 6.00% to a net present value of $38,002,532 and $42,547,256 as of June 30, 2002 and 2001, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	2002	**2001**
Less than one year	**$ 16,433,883**	$ 22,938,273
One to five years	**13,380,565**	10,469,647
More than five years	**8,188,084**	9,139,336
Subtotal	**38,002,532**	42,547,256
Less allowance for uncollectibles pledges	**1,859,000**	1,156,000
Total	**$ 36,143,532**	$ 41,391,256

6. Life Insurance Policies

The Foundation is the beneficiary of certain life insurance policies that 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, 2002 and 2001. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated $5,588,000 and $7,224,000 as of June 30, 2002 and 2001, 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 $99,534,000 and $112,774,000 as of June 30, 2002 and 2001, respectively. Equity markets have experienced a general decline since June 30, 2002, as a result, the value of the pooled investments approximated $93,075,000 as of August 21, 2002.

The Foundation and Association have adopted a spending rate policy that 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 purposes of promoting endowment fund growth. During 2002 and 2001, income earned in the investment pool was less than the amount allocated for expenditure by approximately $4,087,000 and $3,078,000, respectively. This shortfall was funded by capital gains in the investment pool for the years ended June 30, 2002 and 2001.

The Foundation also manages other investments, which amounted to approximately $45,721,000 and $39,273,000 as of June 30, 2002 and 2001, 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:

	2002	2001
Office equipment	**$ 601,659**	$ 601,022
Software	**846,458**	802,010
Automobile	**17,980**	17,980
Computer equipment	**509,783**	525,069
	1,975,880	1,946,081
Less accumulated depreciation	**(1,079,003)**	(1,002,161)
	$ 896,877	$ 943,920

9. Leases

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

Rental expense for operating leases during 2002 and 2001 were approximately $254,000 and $255,000, respectively.

The Foundation and the Association lease certain office space directly from the University of Cincinnati. Rental expense recognized in the combined statement of activities was $239,472 as of June 30, 2002 and 2001.

9. Leases (continued)

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, 2002 are:

	Operating Leases
Year ending June 30,	
2003	$ 253,870
2004	253,870
2005	253,870
2006	245,470
2007	239,470
Thereafter	4,130,860
Total minimum lease payments	$ 5,377,410

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 of these amounts, which are anticipated to be collected and distributed in cash, respectively, are recorded at the net present value of such amounts.

10. Fair Value of Financial Instruments (continued)

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, 2002 and 2001, the recorded amount of the non-interest bearing obligation is $479,557 and $599,446, respectively, and is payable in equal annual payments of $119,889 with the final payment due in July 2006. As of June 30, 2002 and 2001, the fair value of the obligation is $416,452 and $535,318, respectively, which is the present value of expected future cash payments discounted at 6.00%.

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 negotiated fee. This agreement expired as of June 30, 2002. The Foundation received $751,000 in both 2002 and 2001 related to this agreement.

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 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 fiscal years 2002 and 2001 was 1.00%. Revenue to the Foundation from the fee was approximately $5,235,000 and $4,519,000 in fiscal years 2002 and 2001, respectively, and is used to fund the Foundation operations. Approximately, $900,000 and $593,000 of this fee was recorded from funds held by the Foundation and Association in 2002 and 2001, 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 $322,000 and $360,000 in 2002 and 2001, 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:

	2002	**2001**
Investments, at fair value	**$ 17,094,759**	$ 17,697,605
Present value of annuities payable	**9,581,236**	9,109,142
	$ 7,513,523	$ 8,588,463

15. Subsequent Event

In July 2002, the Foundation combined investments of the Foundation and Endowment Fund Association with the investments of the University of Cincinnati to maximize investment diversification.

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Report of Independent Auditors on Other Financial Information

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

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining and other supplementary information included in Schedules 1 through 4 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits 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.

Ernst & Young LLP

August 21, 2002

The University of Cincinnati Foundation and The Endowment Fund Association

Combining Schedule - Statement of Financial Position

June 30, 2002

	The University of Cincinnati Foundation	The Endowment Fund Association	Combined
Assets			
Cash	$ 5,739,209	$ 406,361	$ 6,145,570
Due from University of Cincinnati	1,431,219	-	1,431,219
Accrued interest receivable	339,049	20,445	359,494
Stock proceeds receivable	61,205	-	61,205
Prepaid expenses	102,236	-	102,236
Pledges receivable, net of allowance	36,143,532	-	36,143,532
Cash surrender value of life insurance policies	688,991	-	688,991
Other	2,600	-	2,600
Investments, at market	117,304,701	27,950,408	145,255,109
Investment property, net	777,457	-	777,457
Property and equipment:			
Leasehold improvements, net	375,364	-	375,364
Equipment and automobile, net	896,877	-	896,877
Total assets	$ 163,862,440	$ 28,377,214	$ 192,239,654
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$ 1,051,752	$ 20,444	$ 1,072,196
Accrued liabilities	43,002	-	43,002
Accrued compensated absences	179,349	-	179,349
Agency payable	580,452	-	580,452
Refundable deposit	690,793	-	690,793
Due to University of Cincinnati	479,557	-	479,557
Present value of annuities payable	9,581,236	-	9,581,236
Total liabilities	12,606,141	20,444	12,626,585
Net assets:			
Unrestricted	11,007,774	1,054,029	12,061,803
Temporarily restricted	58,690,001	396,871	59,086,872
Permanently restricted	81,558,524	26,905,870	108,464,394
Total net assets	151,256,299	28,356,770	179,613,069
Total liabilities and net assets	$ 163,862,440	$ 28,377,214	$ 192,239,654

The University of Cincinnati Foundation and The Endowment Fund Association

Combining Schedule - Statement of Activities

Year ended June 30, 2002

	The University of Cincinnati Foundation	The Endowment Fund Association	Combined
Revenues and other additions:			
Contributions:			
University	$ 48,134,260	$ 5,583	$ 48,139,843
Foundation	82,781	-	82,781
University fee *(Note 11)*	1,455,325	-	1,455,325
Assessment fee *(Note 12)*	5,234,807	-	5,234,807
Other income	1,392,199	-	1,392,199
Investment income:			
Dividend and interest income	2,051,691	1,645,890	3,697,581
Net unrealized and realized gains	(13,924,451)	(3,357,415)	(17,281,866)
Reclassification of contributions pursuant to donor stipulation	1,610,074	(1,610,074)	-
Total revenues and other additions	46,036,686	(3,316,016)	42,720,670
Expenses and other deductions			
Distributions to or for the University of Cincinnati	24,238,567	1,632,596	25,871,163
Operating expenses	10,248,114	-	10,248,114
Assessment fee *(Note 12)*	536,556	362,984	899,540
Total expenses	35,023,237	1,995,580	37,018,817
Change in present value of annuities payable	(126,742)	-	(126,742)
Total expenses and other deductions	34,896,495	1,995,580	36,892,075
Change in net assets	11,140,191	(5,311,596)	5,828,595
Net assets, beginning of year	140,116,108	33,668,366	173,784,474
Net assets, end of year	$ 151,256,299	$ 28,356,770	$ 179,613,069

THE UNIVERSITY OF CINCINNATI FOUNDATION AND THE ENDOWMENT FUND ASSOCIATION

Schedule of Combined Operating Expenses

Year ended June 30, 2002 and 2001

	Foundation Operations	College/ University Expenses	Total 2002	Total 2001
Salaries and wages	**$ 3,684,955**	**$ 195,451**	**$ 3,880,406**	4,202,819
Fringe benefits	**1,076,476**	**55,384**	**1,131,860**	1,162,287
Professional services	**210,783**	**-**	**210,783**	280,643
Provision for losses on pledges receivable	**-**	**2,779,410**	**2,779,410**	570,684
Promotional materials and events	**309,090**	**-**	**309,090**	433,666
Public Relations	**69,902**	**-**	**69,902**	35,110
Direct Marketing	**63,390**	**-**	**63,390**	101,002
Depreciation and amortization	**292,521**	**58,838**	**351,359**	387,253
Telephone and postage	**245,306**	**3,267**	**248,573**	246,444
Travel	**109,153**	**-**	**109,153**	196,443
Computer and word processing	**114,531**	**-**	**114,531**	124,002
Building lease	**253,870**	**-**	**253,870**	255,371
Business meetings	**101,023**	**-**	**101,023**	108,753
Resource materials	**35,513**	**-**	**35,513**	40,373
Development and recruiting	**197,682**	**-**	**197,682**	128,115
Copying charges	**29,531**	**-**	**29,531**	29,948
Utilities, repairs and maintenance	**40,395**	**-**	**40,395**	40,911
Cleaning	**57,053**	**-**	**57,053**	54,930
Supplies	**48,836**	**-**	**48,836**	42,023
Insurance	**19,447**	**-**	**19,447**	18,663
Parking	**24,868**	**-**	**24,868**	23,679
Restructuring	**70,650**	**-**	**70,650**	-
Miscellaneous	**46,824**	**53,965**	**100,789**	80,325
	$ 7,101,799	**$ 3,146,315**	**$10,248,114**	$ 8,563,444

THE UNIVERSITY OF CINCINNATI FOUNDATION AND THE ENDOWMENT FUND ASSOCIATION

Schedule of Activities - Unrestricted Net Assets

Year ended June 30, 2002

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions:			
University	$ 282,239	$ -	$ 282,239
University fee	-	1,397,908	1,397,908
Assessment fee	-	5,234,807	5,234,807
Other income	-	150,255	150,255
Investment income:			
Dividend and interest income	302,195	529,679	831,874
Net unrealized and realized gains	(12,791,951)	(133,407)	(12,925,358)
Reclassification of contributions pursuant to donor stipulation	(3,535,238)	101,875	(3,433,363)
Net assets released from restrictions:			
Satisfaction of donor restrictions	25,863,950	-	25,863,950
Total revenues and other additions	10,121,195	7,281,117	17,402,312
Expenses:			
Distributions to or for the University of Cincinnati	25,871,163	-	25,871,163
Operating expenses	3,146,315	7,101,799	10,248,114
Assessment fee	899,540	-	899,540
Total expenses	29,917,018	7,101,799	37,018,817
Change in net assets	(19,795,823)	179,318	(19,616,505)
Net assets, beginning of year	30,381,071	1,297,237	31,678,308
Net assets, end of year	$ 10,585,248	$ 1,476,555	$ 12,061,803

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Combined financial statements 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 (the Foundation and Association) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 21, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Foundation and Association'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 and Association'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, management and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

August 21, 2002

Auditor of State
Betty Montgomery

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UNIVERSITY OF CINCINNATI FOUNDATION AND ENDOWMENT FUND ASSOCIATION

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 25, 2003