Financial Statements and Report of Independent Certified Public Accountants

The University of Cincinnati Foundation

June 30, 2014 and 2013

Dave Yost • Auditor of State

Board of Trustees
The University of Cincinnati Foundation
51 Goodman Drive
Suite 100
Cincinnati, Ohio 45219

We have reviewed the *Report of Independent Certified Public Accountants* of The University of Cincinnati Foundation, Hamilton County, prepared by Grant Thornton LLP, for the audit period July 1, 2013 through June 30, 2014. 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.

Dave Yost
Auditor of State

October 21, 2014

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www. auditor.state.oh.us

This page intentionally left blank.

Contents

Audit • Tax • Advisory
Grant Thornton LLP
4000 Smith Road, Suite 500
Cincinnati, OH 45209-1967
T 513.762.5000
F 513.241.6125

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The University of Cincinnati Foundation

Report on the financial statements

We have audited the accompanying financial statements of The University of Cincinnati Foundation (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Grant Thornton

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Cincinnati Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedule of Detail of Operating Expenses for the years ended June 30, 2014 and 2013, and the Supplemental Schedule of Activities – Unrestricted Net Assets (Deficit) for the year ended June 30, 2014, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Grant Thornton LLP

Cincinnati, Ohio
September 22, 2014

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 2,969,010	$ 4,826,522
Due from University of Cincinnati	1,920,872	1,064,960
Accrued interest receivable	433,507	462,204
Stock proceeds receivable	206,271	39,161
Prepaid expenses	96,440	275,868
Pledges receivable, net of allowance	75,603,368	68,068,654
Trusts held by others	9,494,916	8,925,484
Cash surrender value of life insurance policies	1,100,726	916,195
Other	3,262	16,252
Investments:		
Mutual funds	22,433,845	20,332,239
Common stocks and exchange traded funds	12,026,194	11,026,652
U.S. Government and agency obligations	3,323,088	3,187,950
Corporate bonds	10,705,380	10,358,923
Other	3,990,384	3,686,235
University pooled investments	283,422,208	232,816,844
Total investments	335,901,099	281,408,843
Property and equipment:		
Leasehold improvements, net of accumulated amortization of $1,065,446 in 2014 and $977,089 in 2013	280,809	365,756
Equipment and software, net of accumulated depreciation of $1,953,774 in 2014 and $1,999,801 in 2013	1,714,489	143,730
	$ 429,724,769	$ 366,513,629
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 690,903	$ 461,016
Accrued liabilities	460,534	296,917
Accrued compensated absences	622,749	487,217
Agency payable	972,000	2,579,663
Trusts held for the benefit of others	1,053,266	991,785
Refundable deposits	807,915	1,516,658
Accrued interest income due to investment pool	176,703	184,551
Present value of annuities payable	7,318,904	6,905,073
TOTAL LIABILITIES	12,102,974	13,422,880
NET ASSETS (DEFICIT)		
Unrestricted	(14,000,514)	(21,034,298)
Temporarily restricted	142,840,850	101,830,622
Permanently restricted	288,781,459	272,294,425
TOTAL NET ASSETS	417,621,795	353,090,749
	$ 429,724,769	$ 366,513,629

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 125,204	$ 53,232,911	$ 14,243,312	$ 67,601,427
Foundation	-	47,716	-	47,716
University fee	1,926,930	1,554,604	-	3,481,534
Assessment fee	11,297,354	-	-	11,297,354
Change in value of split interest agreements	60,079	(264,171)	773,524	569,432
Other income	1,656	990,791	69,049	1,061,496
Investment income:				
Dividend and interest income	374,503	10,208,478	60,865	10,643,846
Net unrealized and realized gains	8,801,202	18,540,384	1,949,927	29,291,513
Bad debt loss	-	(2,171,493)	(365,724)	(2,537,217)
Net assets released from restrictions - satisfaction of donor restrictions	40,354,088	(40,354,088)	-	-
Total revenues and other additions	62,941,016	41,785,132	16,730,953	121,457,101
Expenses and other deductions:				
Distributions to University of Cincinnati	37,243,602	-	-	37,243,602
Operating expenses	14,325,809	-	-	14,325,809
Assessment fee	4,337,821	-	-	4,337,821
Total expenses	55,907,232	-	-	55,907,232
Change in present value of annuities payable	-	774,904	243,919	1,018,823
Total expenses and other deductions	55,907,232	774,904	243,919	56,926,055
Change in net assets	7,033,784	41,010,228	16,487,034	64,531,046
Net assets (deficit) at beginning of year	(21,034,298)	101,830,622	272,294,425	353,090,749
Net assets (deficit) at end of year	$ (14,000,514)	$ 142,840,850	$ 288,781,459	$ 417,621,795

The accompanying notes are an integral part of this financial statement.

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 904,912	$ 43,896,369	$ 19,956,716	$ 64,757,997
Foundation	-	81,691	-	81,691
Donated services	315,361	-	-	315,361
University fee	823,472	-	-	823,472
Assessment fee	11,145,927	-	-	11,145,927
Change in value of split interest agreements	(1,411)	431,718	333,587	763,894
Other income	2,666	1,184,927	13,976	1,201,569
Investment income:				
Dividend and interest income	389,708	8,083,072	61,819	8,534,599
Net unrealized and realized gains	3,867,050	11,236,636	1,775,719	16,879,405
Bad debt loss	-	(359,306)	(1,011,318)	(1,370,624)
Net assets released from restrictions - satisfaction of donor restrictions	44,621,912	(44,621,912)	-	-
Total revenues and other additions	62,069,597	19,933,195	21,130,499	103,133,291
Expenses and other deductions:				
Distributions to University of Cincinnati	41,006,328	-	-	41,006,328
Operating expenses	12,872,678	-	-	12,872,678
Assessment fee	3,860,704	-	-	3,860,704
Total expenses	57,739,710	-	-	57,739,710
Change in present value of annuities payable	-	656,275	137,613	793,888
Total expenses and other deductions	57,739,710	656,275	137,613	58,533,598
Change in net assets	4,329,887	19,276,920	20,992,886	44,599,693
Net assets (deficit) at beginning of year	(25,364,185)	82,553,702	251,301,539	308,491,056
Net assets (deficit) at end of year	$ (21,034,298)	$ 101,830,622	$ 272,294,425	$ 353,090,749

The accompanying notes are an integral part of this financial statement.

THE UNIVERSITY OF CINCINNATI FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2014 and 2013

	2014	2013
Operating activities:		
Payments to the University of Cincinnati	$ (37,202,387)	$ (41,169,708)
University fees, assessment fees and other	10,839,069	9,383,106
Cash paid for compensation	(9,648,337)	(9,218,469)
Cash received for gifts	24,865,181	28,630,761
Investment income available for distribution	9,096,923	7,753,975
Cash paid for operating expenses	(4,158,987)	(3,270,403)
Net cash used in operating activities	(6,208,538)	(7,890,738)
Investing activities:		
Proceeds from sale of investments	23,868,754	41,611,924
Purchase of investments	(49,069,497)	(52,420,254)
Purchase of property and equipment	(1,639,773)	(35,463)
Net cash used in investing activities	(26,840,516)	(10,843,793)
Financing activities:		
Proceeds from contributions to endowment and similar funds	29,615,922	19,488,206
Investment income restricted for reinvestment	1,575,620	979,442
Net cash provided by financing activities	31,191,542	20,467,648
Net (decrease) increase in cash and cash equivalents	(1,857,512)	1,733,117
Cash and cash equivalents, beginning of year	4,826,522	3,093,405
Cash and cash equivalents, end of year	$ 2,969,010	$ 4,826,522
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	$ 64,531,046	$ 44,599,693
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	2,543,608	1,471,388
Depreciation and amortization	153,381	213,783
Loss on disposal of asset	580	-
(Increase) decrease in due from University of Cincinnati	(855,912)	53,528
Decrease in accrued interest receivable	28,697	198,819
(Increase) decrease in stock proceeds receivable	(167,110)	192,019
Decrease in prepaid expenses	179,428	6,477
Increase in pledges receivable	(10,078,322)	(17,662,307)
(Increase) decrease in cash surrender value of life insurance policies	(184,531)	381,822
Decrease in other assets	12,990	12,837
Increase (decrease) in accounts payable	229,887	(32,750)
Increase (decrease) in accrued liabilities	163,617	(174,391)
Increase (decrease) in accrued compensated absences	135,532	(109,157)
(Decrease) increase in agency payable	(1,607,663)	81,337
Increase in trusts held for the benefit of others	61,481	991,785
(Decrease) increase in refundable deposits	(708,743)	42,797
Decrease in accrued interest income due to investment pool	(7,848)	(69,123)
Increase in present value of annuities payable	413,831	21,652
Contributions to endowment and similar funds	(29,615,922)	(19,488,206)
Change in value of split interest agreements	(569,432)	(763,894)
Investment income restricted for reinvestment	(1,575,620)	(979,442)
Net unrealized and realized gains	(29,291,513)	(16,879,405)
Net cash used in operating activities	$ (6,208,538)	$ (7,890,738)

The accompanying notes are an integral part of these financial statements.

NOTE A – DESCRIPTION OF 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 the benefit of the University.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements of the Foundation are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Resources for various purposes are classified into net assets classes 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, and the portion of perpetual endowment funds subject to a time restriction under an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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.

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 2014, the Foundation released approximately $40,354,000 in restricted assets ($5,820,000 for operations, maintenance, plant, $16,210,000 for college programs, $3,361,000 for instruction, $4,110,000 for auxiliary, $5,851,000 for scholarship, $1,628,000 for academic support, $2,417,000 for research and $957,000 for other). In 2013, the Foundation released approximately $44,622,000 in restricted assets ($5,215,000 for operations, maintenance, plant, $18,510,000 for college programs, $4,485,000 for instruction, $4,407,000 for auxiliary, $5,683,000 for scholarship, $2,185,000 for academic support, $2,162,000 for research and $1,975,000 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-imposed 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. The Foundation recognizes temporarily restricted contributions and investment income in which donor-imposed restrictions

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Basis of Presentation (continued)

are met within the same period as temporarily restricted net assets and then reclassifies the revenue to unrestricted net assets through net assets released from restriction on the accompanying Statements of Activities. 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 stipulation 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.

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. Unconditional promises to give of $10,000 or more, and more than one year old, are evaluated annually for collectability. An appropriate reserve for each pledge is established based on the evaluation. Pledges of this size are not written off without senior management approval. Unconditional promises to give of less than $10,000, expected to be satisfied by multiple payments, are generally completely reserved once twelve months have elapsed from receipt of the last pledge payment. These pledges are written off once the development officer assigned to the donor believes that further collection efforts will not be successful. Finally, unconditional promises to give arising from Telefund and other annual giving programs are generally written off to bad debt expense once the donor has failed to respond to eleven consecutive monthly pledge reminders.

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.

2. Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2014 and 2013, approximately $3,922,664, and $6,362,244, respectively, of cash and cash equivalents were in excess of federally insured limits. The overnight funds were collateralized by U.S. government backed securities. Cash equivalents are carried at amortized cost, and mature in 90 days or less.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Investment Securities

The Foundation's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

4. 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. Software under development is capitalized at cost, which includes direct costs of materials and services consumed during development. Depreciation of software development costs will begin when development is substantially complete and ready for its intended use. 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/amortized using the straight-line method over the estimated useful lives of the assets.

5. 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 $972,000 and $2,580,000 at June 30, 2014 and 2013, respectively.

6. Contributed Services

Contributed services are recognized as revenue if they (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donor. No donated services were received during the year ended June 30, 2014. For the year ended June 30, 2013, the Foundation received donated services with a fair value of $315,361.

7. Income Taxes

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

The Foundation evaluates its uncertain tax positions as to whether it is more likely than not a tax position could be sustained in the event of an audit by the applicable taxing authority. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Open tax years for the Foundation include 2013, 2012 and 2011. As of June 30, 2014 and 2013, the Foundation has no assets or liabilities recorded related to uncertain tax positions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of contributions, revenues, gains, and expenses during the reporting period. Actual results could differ from those estimates.

9. Risks and Uncertainties

The Foundation holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

10. Fair Value Measurements

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Foundation uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Foundation may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

11. New Accounting Standards

During 2014, the Foundation adopted Accounting Standards Update ("ASU") 2012-05, *Not-For-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* ASU 2012-05 requires that sale proceeds of donated financial assets converted nearly immediately to cash are classified as operating activities in the Statement of Cash Flows unless certain donor restrictions exist. Adoption of ASU 2012-05 did not have a material impact on the accompanying financial statements.

The Foundation adopted the disclosure requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U. S. GAAP and IFR*Ss ("ASU 2011-04") as of June 30, 2013. ASU 2011-04 amends and clarifies the measurement and disclosure requirements of FASB Accounting Standards Codification 820, resulting in common requirements for measuring fair value and for disclosing information about fair value measurements, clarification of how to apply existing fair value measurement and disclosure requirements, and changes to certain principles and requirements for measuring fair value and disclosing information about fair value measurements. Adoption of ASU 2011-04 did not have a material impact on the accompanying financial statements.

NOTE C – TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Capital projects	$ 36,230,701	$ 9,930,444
College programs	57,905,055	46,076,410
Instruction	6,833,293	6,354,190
Scholarships	20,152,494	18,648,566
Academic support	4,610,129	4,496,409
Auxiliary	1,550,221	5,166,181
Research	6,007,038	2,648,515
Annuity and life income funds	4,957,307	4,794,574
Other	4,594,612	3,715,333
Total temporarily restricted net assets	$ 142,840,850	$ 101,830,622

Endowment funds included in temporarily restricted net assets are $82,626,183 and $55,672,402 as of June 30, 2014 and 2013, respectively.

NOTE D – PERMANENTLY RESTRICTED NET ASSETS

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

	2014	2013
College programs	$ 136,844,282	$ 133,110,507
Instruction	29,500,589	25,312,605
Scholarships	63,263,575	58,315,917
Academic support	35,063,474	32,836,271
Auxiliary	6,544,771	6,247,370
Research	10,651,596	10,183,759
Annuity and life income funds	2,567,054	1,935,883
Other	4,346,118	4,352,113
Total permanently restricted net assets	$ 288,781,459	$ 272,294,425

Endowment funds included in permanently restricted net assets are $253,684,457 and $236,267,082 as of June 30, 2014 and 2013, respectively.

NOTE E – PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately $90,065,000 and $85,797,000 as of June 30, 2014 and 2013, respectively. For payments that extend beyond one year, these pledges receivable have been discounted at rates ranging from 0.8% to 6% to a net present value of approximately $79,563,000 and $72,197,000 as of June 30, 2014 and 2013, respectively.

NOTE E – PLEDGES RECEIVABLE (continued)

As of June 30, the unpaid pledges are due as follows:

	2014	2013
Less than one year	$ 20,618,033	$ 32,528,604
One to five years	31,470,423	19,520,080
More than five years	37,976,751	33,747,820
	90,065,207	85,796,504
Less discount to present value	(10,501,839)	(13,599,850)
Less allowance for uncollectible pledges	(3,960,000)	(4,128,000)
	$ 75,603,368	$ 68,068,654

The Foundation records unconditional promises to give at fair value on the date the promise to give is received using the expected present value technique (“EPV”). EPV calculates present value by discounting risk-adjusted expected cash flows using a risk-free interest rate (yield to maturity on U.S. Treasuries representing the average pledge term). Amortization of the discount is recorded as additional contribution revenue.

Amounts due from irrevocable bequests, which are unconditional promises to give, as of June 30, 2014 and 2013 of approximately $16,235,000 and $17,457,000, respectively, are included in the total amount of unconditional pledges due in more than five years. The allowance for uncollectible pledges includes approximately $36,000 and $1,719,000 associated with the irrevocable bequests, as of June 30, 2014 and 2013, respectively.

Ten donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2014, 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 $1,315,000 as of June 30, 2014. There were fourteen donors with outstanding conditional pledges as of June 30, 2013. The net present value of the conditional pledges at June 30, 2013 was approximately $1,518,000.

NOTE F – ENDOWMENT FUNDS

Endowment assets are invested in a manner consistent with statutory fiduciary responsibilities and policies adopted by the Foundation’s Board of Trustees. The primary objective is to produce long-term real growth in assets, net of administrative and investment fees, by generating a total endowment rate of return which is greater than the spending rate plus the Consumer Price Index. Strategies to achieve the primary objective at a prudent level of risk include: (a) diversification of assets among various classes; (b) diversification of investment styles within asset class: and (c) ongoing review of investment manager performance with respect to rate of return, adherence to investment style and compliance with investment guidelines.

NOTE F – ENDOWMENT FUNDS (continued)

The Foundation's endowment pool and separately invested endowment funds include donor restricted endowment funds, funds designated by the Board of Trustees for reinvestment in the endowment funds, and investment income on the endowment funds that have been appropriated for expenditure. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the absence or existence of donor-imposed restrictions.

The Board of Trustees has interpreted the State of Ohio's UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with the Foundation's interpretation of UPMIFA, investment income and appreciation/depreciation earned on investments held in the permanently restricted endowment funds are credited to either unrestricted or temporarily restricted net assets, unless otherwise stipulated by the donor. Financial assets are to be invested in a manner consistent with statutory fiduciary responsibilities and policies adopted by the Foundation's Board of Trustees.

There are 964 and 926 endowment funds, at June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, the fair value of these funds collectively was $21,604,686 and $30,076,448 less than the original gift amounts, respectively.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income. The spending rate in fiscal years 2014 and 2013 was 4.75% and 5.00%, respectively, of the moving average market value for the twelve-quarter period ended each December. Earnings above the spend rate limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2014 and 2013, income earned in the investment pool was less than the amount allocated for expenditure by approximately $7,104,600 and $7,862,900, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2014 and 2013.

The endowment net asset composition by type of fund as of June 30, 2014, was as follows:

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ -	$ 82,626,183	$ 253,684,457	$ 336,310,640
Board designated endowment funds	(17,477,637)	-	-	(17,477,637)
Total	$ (17,477,637)	$ 82,626,183	$ 253,684,457	$ 318,833,003

NOTE F – ENDOWMENT FUNDS (continued)

The change in endowment fund net assets for the year ended June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (25,885,729)	$ 55,672,402	$ 236,267,082	$ 266,053,755
Investment income:				
Interest and dividend income	374,500	9,884,602	15,530	10,274,632
Net realized/unrealized gain	8,400,469	12,796,899	-	21,197,368
Total investment income	8,774,969	22,681,501	15,530	31,472,000
Contributions and other transfers	-	13,873,195	15,742,727	29,615,922
Appropriation of endowment assets for expenditure	(373,954)	(10,343,153)	(1,250,557)	(11,967,664)
Other changes:				
Other income	-	605,222	1,179,828	1,785,050
Income reinvestment	7,077	137,016	1,729,847	1,873,940
Endowment net assets, end of year	$ (17,477,637)	$ 82,626,183	$ 253,684,457	$ 318,833,003

The endowment net asset composition by type of fund as of June 30, 2013, was as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 55,672,402	$ 236,267,082	$ 291,939,484
Board designated endowment funds	(25,885,729)	-	-	(25,885,729)
Total	$ (25,885,729)	$ 55,672,402	$ 236,267,082	$ 266,053,755

NOTE F – ENDOWMENT FUNDS (continued)

The change in endowment fund net assets for the year ended June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (29,612,721)	$ 50,888,885	$ 216,909,852	$ 238,186,016
Investment income:				
Interest and dividend income	389,708	7,803,338	16,425	8,209,471
Net realized/unrealized gain	3,707,230	4,001,777	-	7,709,007
Total investment income	4,096,938	11,805,115	16,425	15,918,478
Contributions and other transfers	-	2,098,496	17,389,710	19,488,206
Appropriation of endowment assets for expenditure	(412,473)	(9,874,584)	(65,710)	(10,352,767)
Other changes:				
Other income	-	508,541	1,291,448	1,799,989
Income reinvestment	42,527	245,949	725,357	1,013,833
Endowment net assets, end of year	$ (25,885,729)	$ 55,672,402	$ 236,267,082	$ 266,053,755

Permanently restricted endowment assets appropriated for expenditure relate primarily to contributions received where a donor originally permanently restricted the donation and subsequently changed the nature of the restriction.

NOTE G – INVESTMENTS

The Foundation combines its pooled investment securities with the investment pool of the University in order 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. As of June 30, 2014 and 2013, the University is holding approximately $2,563,000 and $1,827,000, respectively, that is to be invested in the University pooled investments. These amounts are recorded as other investments in the Statements of Financial Position.

The Foundation also manages other investments, which amounted to approximately $49,916,000 and $46,765,000 as of June 30, 2014 and 2013, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

NOTE G – INVESTMENTS (continued)

The following presents investments held by the Foundation as of June 30, 2014 and 2013:

	2014 Fair Value	2014 Cost	2013 Fair Value	2013 Cost
Cash equivalents	$ 3,990,384	$ 3,990,545	$ 3,686,235	$ 3,686,434
U.S. Government and agency obligations	3,323,088	3,257,538	3,187,950	3,179,271
Corporate bonds	10,705,380	10,786,594	10,358,923	10,506,548
Mutual funds	22,433,845	19,406,764	20,332,239	19,690,655
Common stocks and exchange traded funds	12,026,194	7,564,068	11,026,652	8,672,349
University pooled investments	283,422,208	285,509,758	232,816,844	252,039,409
Total	$ 335,901,099	$ 330,515,267	$ 281,408,843	$ 297,774,666

The number of units in the University pooled investments owned by the Foundation totaled 3,279,319 and 2,879,300, which represents 34% and 31% share of the University investment pool, as of June 30, 2014 and 2013, respectively. The University pooled investments holds primarily common stock, mutual funds, and corporate and government fixed income obligations, which are stated at fair value as determined by market prices. In addition, the pool invests in loans to certain not-for-profit entities for the purpose of developing residential and commercial facilities near the University's main campus. These loans are secured by mortgages, some of which are subordinated to external financing arrangements, on parcels of land purchased by these not-for-profit entities for development. Certain investments in the University pooled investments are stated at fair value, as provided by the investment managers. Audited financial statements of the underlying investments in the University pooled investments as of June 30, 2014 and 2013, are used as a basis for fair value when available. When not available, the fair value is based upon financial information as of an interim date, adjusted for cash receipts, cash disbursements and other distributions made through June 30, 2014 and 2013. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2014 and 2013. Certain underlying investments in the University pooled investments are not readily marketable; therefore, the estimated values of these investments are subject to certain risks. As a result, the fair value of the University pooled investments could differ from the value that may have been determined had a market for certain investments in the University investment pool existed.

The underlying investments that comprise University pooled investments as of June 30 are as follows:

	2014	2013
U.S. and international equity securities	21%	43%
Fixed income securities	14	16
Hedge funds and private equity capital	56	31
Real estate and community development	9	10
Total	100%	100%

NOTE H – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements and disclosures are based on a three level hierarchy as follows:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date.

Level 2 Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; other-than-quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs are unobservable and significant to the fair value measurement.

Financial instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or level 1 inputs) include equity securities, mutual funds, certain U. S. Treasury and agency obligations, and certain corporate obligations. Financial instruments measured at fair value using inputs based on quoted market prices for similar instruments in active markets (or level 2 inputs) include certain U.S. Treasury and agency obligations and certain corporate obligations. U. S. Treasury and agency obligations are priced using auction data or yield curve analysis. Corporate obligations are priced using trading data if available, or when trading data is unavailable, pricing models, matrix pricing, or discounted cash flows using inputs such as weighted-average coupon rate, weighted-average maturity, and consideration of credit ratings. The Foundation also invests in the University pooled investments which is stated at fair value using the net asset value of the underlying investments. For those investments in the pool where pricing information is not available as of the measurement date, the fair value is determined based on information as of an interim date, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by the Foundation's management. These fair value instruments are measured at fair value on a recurring basis using significant unobservable inputs (or level 3 inputs).

Trusts held by others include the Foundation's beneficial interest in trusts held by other trustees. The Foundation calculates the fair value of these trusts using the investment statement from the trustee at the balance sheet date, adjusting the balance for projected future investment income at a rate based on historical returns for the each trust's mix of assets. The projected future income is then discounted back to the balance sheet date using a discount rate commensurate with the risks involved. The trusts primarily consist of common stock, mutual funds, corporate bonds and other fixed income obligations. Due to the assumptions involved in determining the fair value, these trusts are classified as level 3 in the fair value hierarchy.

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the Statement of Financial Position at June 30, 2014:

	Balance at June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Equity securities:				
Consumer	$ 1,953,518	$ 1,953,518	$ -	$ -
Health Care	1,148,144	1,148,144	-	-
Financial	2,045,066	2,045,066	-	-
Technology	2,022,590	2,022,590	-	-
Materials	115,376	115,376	-	-
Energy	1,853,766	1,853,766	-	-
Industrial	2,280,467	2,280,467	-	-
Utilities	3,934	3,934	-	-
Telecommunication	197,622	197,622	-	-
Other	405,711	405,711	-	-
Total equity securities	12,026,194	12,026,194	-	-
Mutual funds:				
Fixed	7,708,278	7,708,278	-	-
Value	3,372,367	3,372,367	-	-
Growth	1,939,947	1,939,947	-	-
Index	1,017,113	1,017,113	-	-
Blended	8,174,100	8,174,100	-	-
Other	222,040	222,040	-	-
Total mutual funds	22,433,845	22,433,845	-	-
Corporate bonds	10,705,380	-	10,705,380	-
U.S. treasury and agency obligations	3,323,088	-	3,323,088	-
University pooled investments	283,422,208	-	-	283,422,208
Total investments at fair value	$ 331,910,715	$ 34,460,039	$ 14,028,468	$ 283,422,208
Trusts held by others	$ 9,494,916	$ -	$ -	$ 9,494,916
Trusts held for the benefit of others	$ 1,053,266	$ -	$ -	$ 1,053,266

The Foundation's investments in cash equivalents are carried at amortized cost. These investments do not qualify as securities as defined in FASB ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by US GAAP are not provided.

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Trusts held for the benefit of others are reported as a liability on the June 30, 2014 Statement of Financial Position, and is an equal and offsetting amount to the underlying investments held by the Foundation for the benefit of unrelated third party beneficiaries. As the underlying investments are included in University pooled investments on the June 30, 2014 Statement of Financial Position, the liability is also categorized as level 3 in the fair value hierarchy.

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the Statement of Financial Position at June 30, 2013:

	Balance at June 30, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Equity securities:				
Consumer	$ 1,729,674	$ 1,729,674	$ -	$ -
Health Care	1,369,767	1,369,767	-	-
Financial	1,460,389	1,460,389	-	-
Technology	1,757,679	1,757,679	-	-
Materials	305,037	305,037	-	-
Energy	1,628,926	1,628,926	-	-
Industrial	1,753,113	1,753,113	-	-
Utilities	180,949	180,949	-	-
Telecommunication	205,561	205,561	-	-
Other	635,557	635,557	-	-
Total equity securities	11,026,652	11,026,652	-	-
Mutual funds:				
Fixed	7,492,624	7,492,624	-	-
Value	2,900,082	2,900,082	-	-
Growth	1,540,750	1,540,750	-	-
Index	896,082	896,082	-	-
Blended	6,730,179	6,730,179	-	-
Other	772,522	772,522	-	-
Total mutual funds	20,332,239	20,332,239	-	-
Corporate bonds	10,358,923	-	10,358,923	-
U.S. treasury and agency obligations	3,187,950	-	3,187,950	-
University pooled investments	232,816,844	-	-	232,816,844
Total investments at fair value	$ 277,722,608	$ 31,358,891	$ 13,546,873	$ 232,816,844
Trusts held by others	$ 8,925,484	$ -	$ -	$ 8,925,484
Trusts held for the benefit of others	$ 991,785	$ -	$ -	$ 991,785

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Realized and unrealized gains related to these fair value instruments total $29,291,513 and $16,879,405 as of June 30, 2014 and 2013, respectively, and are included in net unrealized and realized gains in the accompanying Statements of Activities, except for those fair value instruments where the Foundation is not the beneficiary.

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2014, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others
Beginning balance	$ 232,816,844	$ 8,925,484	$ 991,785
Purchases/contributions	32,524,420	100,000	72,660
Interest and dividend income	4,777,734	-	54,243
Reinvested income	1,530,893	-	-
Liquidations	(12,438,357)	-	(159,243)
Net realized and unrealized gains	24,210,674	469,432	93,821
Ending balance	$ 283,422,208	$ 9,494,916	$ 1,053,266

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2013, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others
Beginning balance	$ 210,208,643	$ 8,161,590	$ -
Purchases/contributions	17,001,888	-	991,785
Interest and dividend income	3,211,613	-	-
Reinvested income	1,086,187	-	-
Liquidations	(12,317,690)	-	-
Net realized and unrealized gains	13,626,203	763,894	-
Ending balance	$ 232,816,844	$ 8,925,484	$ 991,785

Gains and losses for these Level 3 fair value instruments are included in net unrealized and realized gains in the accompanying Statements of Activities. The total amount of gains above included in changes in net assets that is attributable to assets held at June 30, 2014 and 2013 is $24,210,674 and $13,626,203, respectively.

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Quantitative information about significant unobservable inputs used in level 3 fair value measurements

The Foundation's share of University pooled investments is categorized as level 3 in the fair value hierarchy due to several significant unobservable inputs related primarily to loans made to neighborhood development corporations ("NDC"). The remaining investments are categorized as level 1 or level 2 in the fair value hierarchy if active trading data are available for similar or identical financial instruments at or near the balance sheet date, or in the case of hedge funds, the net asset value is provided via annual audited financial statements at or near the balance sheet date, and redemption provisions are not prohibitive. The pool also contains private equity funds, which are categorized as level 3 in the fair value hierarchy due to prohibitive redemption provisions, and are recorded at net asset value based on the most recently available audited financial statements and fund manager information as of March 31, 2014 or 2013, as applicable. NDC loans, which comprise approximately 10% of the University's investment pool, are stated at the principal amount plus accrued interest less an allowance for loan losses. As of June 30, 2014 and 2013, approximately 40% of the principal and accrued interest was offset by an allowance for loan losses. The valuation technique, significant unobservable inputs and the ranges of input values for the loan loss reserve are as follows:

Valuation technique	Unobservable inputs	Range
Expected future cash flows	Future occupancy rates	92% - 98%
	Future operating expenses (as a percentage of total revenue)	33% - 55%

Management obtains current cash flow information from each NDC. Based upon either the expected completion date of construction, or current occupancy rates if the property is actively rented, management then projects the approximate date when principal payments will begin and conclude. If, based upon this analysis, it appears unlikely that the loan principal and accrued interest can be repaid, or if the underlying property value decreases such that the University's loan amount plus other outstanding debt exceeds the property's appraised value, an increase to the loan loss reserve is recorded.

On an annual basis, the Foundation estimates the fair value of its beneficial interest in trusts held by other trustees. Management obtains trust statements as of the balance sheet date, and calculates the fair value of their beneficial interest based on expected investment returns, and the life expectancies of any other income beneficiaries, discounted at a 6% interest rate. The following table represents the Foundation's valuation technique, significant unobservable inputs, and ranges of values of those inputs for trusts held by others:

Fair value at June 30, 2014	Valuation technique	Unobservable inputs	Range
$9,494,916	Discounted cash flows	Projected investment income	0% - 8%
		Life expectancy of beneficiaries	3 – 24 years
		Discount rate	6%

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Trusts held for the benefit of others are included as a liability on the accompanying June 30, 2014 Statement of Financial Position. The trusts are stated at fair value, which is an equal and offsetting amount to the trusts' underlying investments which are included in University pooled investments at fair value on the accompanying June 30, 2014 Statement of Financial Position. As University pooled investments are also categorized as a level 3 financial instrument, the significant unobservable inputs for this investment are disclosed previously in this footnote.

NOTE I – 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, due from the University, receivables (other than pledges), prepaid expenses, cash surrender value of life insurance policies, other assets, accounts payable, agency payable, accrued liabilities, accrued compensated absences, and refundable deposits approximate fair value because of the short maturity of these instruments. The fair value of pledges receivable and annuities payable have been estimated by management to approximate carrying value using a current discount rate commensurate with the risk involved.

The fair values of investments and trusts held for the benefit of others are generally estimated based on quoted market prices for those investments. Certain investments held in the University's investment pool do not have readily determinable market values. These investments are carried at estimated fair value provided by the investment managers. The majority of these investments are valued based upon independently audited financial information or other information provided as of an interim date, which is adjusted for cash receipts, cash disbursements, and other distributions made through June 30, 2014 and 2013, respectively. The fair value of trusts held by others is based upon the discounted cash flows at a rate commensurate with the risk involved. The Foundation believes that the carrying value of investments in the University pooled investments is a reasonable estimate of fair value at June 30, 2014 and 2013. See also Notes G, H, and M.

NOTE J – EQUIPMENT AND SOFTWARE

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

	2014	**2013**
Office equipment	$ 611,714	$ 594,712
Software	1,105,873	1,105,873
Automobile	22,320	22,320
Computer equipment	373,752	420,626
Software under development	1,554,604	-
	3,668,263	2,143,531
Accumulated depreciation and amortization	(1,953,774)	(1,999,801)
	$ 1,714,489	$ 143,730

NOTE K – LEASES

Rental expense for operating leases was $239,470 for both 2014 and 2013. The Foundation leases certain office space directly from the University. The lease expires on September 30, 2024, and is renewable for two additional terms of 20 years each.

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

2015	$	239,470
2016		239,470
2017		239,470
2018		239,470
2019		239,470
Thereafter		1,257,220
Total minimum lease payments	$	2,454,570

NOTE L – 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, 2014 and 2013. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, is $5,713,127 and $5,324,165 as of June 30, 2014 and 2013, respectively.

NOTE M – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

The Foundation has been notified of thirteen trusts held by other trustees where the remainder interest will irrevocably benefit the University. In addition, the Foundation has been notified of two charitable lead unitrusts held by other trustees where annual payments are received by the Foundation. The Foundation values these assets by projecting the value of the trust assets to future periods and then discounting the anticipated cash flows at a rate reflective of the credit risk involved.

Beneficial interest in trusts held by other trustees amounted to approximately $9,495,000 and $8,925,000 as of June 30, 2014 and 2013, respectively.

NOTE N – 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. For the years ended June 30, 2014 and 2013, interest income and salary and benefits reimbursements were $928,368 and $742,652, respectively.

NOTE N – UNIVERSITY FEE (continued)

During the year ended June 30, 2014, the University provided operating support and contributions for costs incurred related to software development in the amount of $998,562 and $1,554,604, respectively. Operating support of $80,820 was provided by the University during the year ended June 30, 2013. No other contributions were provided by the University during the year ended June 30, 2013.

NOTE O – 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 was 2% in 2014 and 2013. Revenue to the Foundation from the fee was approximately $10,322,000 and $10,241,000 in 2014 and 2013, respectively, and is used to fund Foundation operations. Approximately $3,705,000 and $3,213,000 of this fee was recorded from funds held by the Foundation in 2014 and 2013, respectively.

The Foundation charges an endowment administrative fee to recover gift stewardship costs incurred by the Foundation for those endowments which are not charged the general endowment assessment fee. The endowment administrative rate was 4% in 2014 and 2013 of the spending policy distribution made to the endowment spending account. Revenue to the Foundation from the fee was approximately $427,000 and $341,000 in 2014 and 2013, respectively. Approximately $110,000 and $112,000 of this fee was recorded from funds held by the Foundation in 2014 and 2013, respectively.

The Foundation charges a fee to be assessed upon all spendable, cash gifts made to either the University or the Foundation. The gift administrative rate was 2% in 2014 and 2013 upon the receipt of cash to gift, plant and loan funds. Revenue to the Foundation from the fee was approximately $548,000 and $563,000 in 2014 and 2013, respectively. Approximately $522,000 and $536,000 of this fee was recorded from funds received by the Foundation in 2014 and 2013, respectively.

NOTE P – 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. Present value of annuities payable is recorded using the Foundation's estimated borrowing rate. Changes in future payments due to the life expectancy of beneficiaries and amortization of the discount are reflected in change in present value of annuities payable on the accompanying Statement of Activities. The assets and liabilities of these funds as of June 30 are:

	2014	2013
Annuities		
Investments, at fair value	$ 2,547,048	$ 2,313,234
Less present value of annuities payable	(1,297,433)	(1,335,677)
	$ 1,249,615	$ 977,557

NOTE P – ANNUITY AND LIFE INCOME FUNDS (continued)

	2014	2013
Trusts		
Investments, at fair value	$ 12,970,647	$ 13,255,925
Less present value of annuities payable	(6,021,471)	(5,569,396)
	$ 6,949,176	$ 7,686,529

For the year ended June 30, 2014, the Foundation received contributions of approximately $105,000 and $343,000 for annuities and trusts, respectively. For the year ended June 30, 2013, the Foundation received contributions of approximately $50,000 and $135,000 for annuities and trusts, respectively.

The Foundation monitors applicable state laws related to legally-mandated reserves for charitable gift annuities, and maintains reserves for various states, as appropriate.

NOTE Q – RETIREMENT PLANS

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 $503,000 and $458,000 for the years ended June 30, 2014 and 2013, respectively.

The Foundation also maintains a Section 457 plan for highly compensated employees. Accounts for other participating employees are currently funded solely by salary reduction contributions. The plan is structured to permit Foundation contributions on behalf of the participants, as defined. There were no amounts contributed by the Foundation for the years ended June 30, 2014 and 2013.

NOTE R – RELATED PARTY TRANSACTIONS

Certain board members of the Foundation made contributions of $2,351,274 and $2,232,168 during fiscal year 2014 and 2013, respectively. In addition, certain board members are employees of organizations which provide services to the Foundation. Total fees paid to these organizations were $144,454 and $162,584 for the years ended June 30, 2014 and 2013 respectively.

See also the description of various related party transactions with the University in Notes G, H, K, M, N, and O.

NOTE S – PURCHASE COMMITMENT

During the year ended June 30, 2014, the Foundation entered into a purchase commitment with a vendor for software and services related to a donor database and financial reporting system. Future minimum purchases remaining under the purchase commitment are approximately $2,500,000, and will be paid primarily over the next three fiscal years depending upon the implementation of the software, which is expected to occur during the year ended June 30, 2015.

NOTE T – SUBSEQUENT EVENTS

The Foundation evaluated its June 30, 2014 financial statements for subsequent events through September 22, 2014, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTAL SCHEDULES

THE UNIVERSITY OF CINCINNATI FOUNDATION

SUPPLEMENTAL SCHEDULE OF DETAIL OF OPERATING EXPENSES

Years ended June 30, 2014 and 2013

	Foundation Operations	College / University Expenses	Total 2014	Total 2013
Salaries and wages	$ 7,350,779	$ 333,302	$ 7,684,081	$ 6,943,356
Fringe benefits	2,197,576	99,551	2,297,127	2,306,926
Professional services	1,147,981	18,907	1,166,888	1,015,633
Public relations	335,888	-	335,888	320,696
Telephone and postage	272,919	-	272,919	257,365
Building lease	239,470	-	239,470	239,470
Promotional materials and events	400,958	-	400,958	230,567
Depreciation and amortization	153,381	-	153,381	213,783
Development and recruiting	418,670	-	418,670	186,266
Travel	249,046	-	249,046	158,899
General support - Alumni Association	37,371	-	37,371	152,575
Executive recruitment	18,203	-	18,203	135,169
Cleaning	103,684	-	103,684	106,418
Computer and word processing	88,530	-	88,530	95,350
Direct marketing	160,268	-	160,268	77,241
Business meetings	288,261	-	288,261	68,279
Utilities, repairs and maintenance	59,269	-	59,269	53,334
Parking	41,033	-	41,033	39,632
Insurance	34,742	-	34,742	33,703
Gift annuity reserve	30,365	-	30,365	32,869
Resource materials	39,968	-	39,968	27,525
Miscellaneous	73,326	4,795	78,121	122,045
Copying charges	20,880	-	20,880	21,091
Membership dues	44,149	-	44,149	20,296
Supplies	62,537	-	62,537	14,190
	$ 13,869,254	$ 456,555	$ 14,325,809	$ 12,872,678

THE UNIVERSITY OF CINCINNATI FOUNDATION

SUPPLEMENTAL SCHEDULE OF ACTIVITIES - UNRESTRICTED NET ASSETS (DEFICIT)

Year ended June 30, 2014

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions	$ 125,204	$ -	$ 125,204
University fee	-	1,926,930	1,926,930
Assessment fee	-	11,297,354	11,297,354
Change in value of split interest agreements	60,079	-	60,079
Other income	1,656	-	1,656
Investment income:			
Dividend and interest income	319,855	54,648	374,503
Net unrealized and realized gains	8,776,148	25,054	8,801,202
Net assets released from restrictions - satisfaction of donor restrictions	40,354,088	-	40,354,088
Total revenues and other additions	49,637,030	13,303,986	62,941,016
Expenses and other deductions:			
Distributions to the University of Cincinnati	37,243,602	-	37,243,602
Operating expenses	456,555	13,869,254	14,325,809
Assessment fee	4,337,821	-	4,337,821
Total expenses and other deductions	42,037,978	13,869,254	55,907,232
Change in net assets	7,599,052	(565,268)	7,033,784
Net assets (deficit), beginning of year	(21,958,744)	924,446	(21,034,298)
Net assets (deficit), end of year	$ (14,359,692)	$ 359,178	$ (14,000,514)

Audit • Tax • Advisory
Grant Thornton LLP
4000 Smith Road, Suite 500
Cincinnati, OH 45209-1967
T 513.762.5000
F 513.241.6125

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
The University of Cincinnati Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Foundation's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Grant Thornton

Compliance and other matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Cincinnati, Ohio
September 22 2014

Dave Yost · Auditor of State

THE UNIVERSITY OF CINCINNATI FOUNDATION

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 6, 2014