

THE UNIVERSITY OF CINCINNATI FOUNDATION
HAMILTON COUNTY
CINCINNATI, OHIO

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPARepor**t**@ohioauditor.gov
(800) 282-0370

Board of Trustees
The University of Cincinnati Foundation
PO Box 19970
Cincinnati, Ohio 45219

We have reviewed the *Independent Auditor's Report* of The University of Cincinnati Foundation, Hamilton County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2022 through June 30, 2023. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The University of Cincinnati Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 29, 2023

This page intentionally left blank.

Contents

	Page
Independent Auditor's Report	3
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6-7
Consolidated Statements of Functional Expenses	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplementary Information:	
Schedule of Activities – Net Assets Without Donor Restrictions	36
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor's Report	37

This page intentionally left blank.

Independent Auditor's Report

To the Board of Trustees
The University of Cincinnati Foundation

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2023 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note H to the consolidated financial statements, the Foundation has investments valued at approximately \$564,120,000 (75 percent of net assets) and \$536,199,000 (76 percent of net assets) as of June 30, 2023 and 2022, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the University of Cincinnati. Our opinion is not modified with respect to this matter.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of The University of Cincinnati Foundation as of June 30, 2022 were audited by other auditors, who expressed an unmodified opinion on those statements on September 28, 2022.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Board of Trustees
The University of Cincinnati Foundation

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of activities - net assets without donor restrictions is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of activities - net assets without donor restrictions is fairly stated in all material respects in relation to the consolidated 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 October 11, 2023 on our consideration of The University of Cincinnati Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 The University of Cincinnati Foundation's 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 University of Cincinnati Foundation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 11, 2023

THE UNIVERSITY OF CINCINNATI FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 22,846,170	\$ 28,125,693
Due from UC Health Foundation	684,980	1,078,084
Accrued interest receivable	1,166,565	961,636
Stock proceeds receivable	304,234	5,664
Prepaid expenses	771,212	313,893
Pledges receivable, net of allowance	107,652,449	91,184,772
Trusts held by others	14,016,715	12,466,889
Cash surrender value of life insurance policies	664,814	624,355
Other	858,331	814,772
Investments:		
Mutual funds	14,642,719	17,742,306
Equities	25,635,232	22,133,667
Cash equivalents	7,575,196	5,537,551
Corporate bonds	9,494,134	10,404,234
Government and agency obligations	8,367,684	4,809,841
Real estate and other	11,020,000	10,800,000
University pooled investments	564,119,869	536,198,865
Total investments	<u>640,854,834</u>	<u>607,626,464</u>
Right-of-use assets, net - operating leases	307,475	-
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$1,727,557 in 2023 and \$1,599,150 in 2022	162,701	291,107
Equipment and software, net of accumulated depreciation of \$5,691,391 in 2023 and \$5,979,101 in 2022	<u>61,671</u>	<u>3,209</u>
	<u>\$ 790,352,151</u>	<u>\$ 743,496,538</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable:		
University of Cincinnati	\$ 2,493,201	\$ 2,559,788
Other	1,406,028	850,937
Accrued liabilities	2,381,279	1,741,497
Accrued compensated absences	978,489	892,310
Agency payable	18,389,658	19,054,758
Lease liabilities - operating leases	307,475	-
Trusts held for the benefit of others	3,892,974	3,880,193
Refundable deposits	1,303,356	759,513
Accrued interest income due to investment pool	660,205	504,953
Present value of annuities payable	<u>7,247,318</u>	<u>8,950,868</u>
TOTAL LIABILITIES	<u>39,059,983</u>	<u>39,194,817</u>
NET ASSETS		
Without donor restrictions	19,651,447	19,211,276
With donor restrictions	<u>731,640,721</u>	<u>685,090,445</u>
TOTAL NET ASSETS	<u>751,292,168</u>	<u>704,301,721</u>
	<u>\$ 790,352,151</u>	<u>\$ 743,496,538</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other additions:			
Contributions of cash and other financial assets:			
University	\$ 1,229,983	\$ 92,391,368	\$ 93,621,351
Foundation	129,913	-	129,913
University fee	12,202,509	-	12,202,509
UC Health Foundation fee	3,493,328	-	3,493,328
Assessment fee	12,230,321	-	12,230,321
Change in value of split interest agreements	10,922	1,538,904	1,549,826
Other income	203,005	1,183,822	1,386,827
Investment income:			
Dividend and interest income	424,086	7,447,026	7,871,112
Net unrealized and realized gains	722,848	22,839,894	23,562,742
Pledge loss	-	(3,169,196)	(3,169,196)
Net assets released from restrictions - satisfaction of donor restrictions	76,323,381	(76,323,381)	-
Total revenues and other additions	<u>106,970,296</u>	<u>45,908,437</u>	<u>152,878,733</u>
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	69,755,344	-	69,755,344
Alumni experience	3,569,891	-	3,569,891
Assessment fee	5,983,568	-	5,983,568
Total program activities	<u>79,308,803</u>	<u>-</u>	<u>79,308,803</u>
Supporting services:			
Management and general	5,288,858	-	5,288,858
Fundraising	21,932,464	-	21,932,464
Total support services	<u>27,221,322</u>	<u>-</u>	<u>27,221,322</u>
Total expenses	<u>106,530,125</u>	<u>-</u>	<u>106,530,125</u>
Change in present value of annuities payable	-	(641,839)	(641,839)
Total expenses and other deductions	<u>106,530,125</u>	<u>(641,839)</u>	<u>105,888,286</u>
Increase in net assets	440,171	46,550,276	46,990,447
Net assets at beginning of year	19,211,276	685,090,445	704,301,721
Net assets at end of year	<u>\$ 19,651,447</u>	<u>\$ 731,640,721</u>	<u>\$ 751,292,168</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other additions:			
Contributions of cash and other financial assets:			
University	\$ 152,330	\$ 88,931,914	\$ 89,084,244
Foundation	97,487	-	97,487
University fee	9,636,018	-	9,636,018
UC Health Foundation fee	2,577,262	-	2,577,262
Assessment fee	11,433,328	-	11,433,328
Change in value of split interest agreements	(213,433)	(3,009,976)	(3,223,409)
Other income	985,407	3,244,033	4,229,440
Investment income (loss):			
Dividend and interest income	321,431	19,241,391	19,562,822
Net unrealized and realized losses	(64,431)	(21,286,888)	(21,351,319)
Gain on extinguishment of debt	2,974,182	-	2,974,182
Pledge loss	-	(523,344)	(523,344)
Net assets released from restrictions - satisfaction of donor restrictions	100,180,043	(100,180,043)	-
Total revenues and other additions	<u>128,079,624</u>	<u>(13,582,913)</u>	<u>114,496,711</u>
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	93,716,540	-	93,716,540
Alumni experience	3,207,470	-	3,207,470
Assessment fee	5,792,241	-	5,792,241
Total program activities	<u>102,716,251</u>	<u>-</u>	<u>102,716,251</u>
Supporting services:			
Management and general	4,407,799	-	4,407,799
Fundraising	19,587,638	-	19,587,638
Total support services	<u>23,995,437</u>	<u>-</u>	<u>23,995,437</u>
Total expenses	<u>126,711,688</u>	<u>-</u>	<u>126,711,688</u>
Change in present value of annuities payable	<u>-</u>	<u>121,279</u>	<u>121,279</u>
Total expenses and other deductions	<u>126,711,688</u>	<u>121,279</u>	<u>126,832,967</u>
Increase (decrease) in net assets	1,367,936	(13,704,192)	(12,336,256)
Net assets at beginning of year	17,843,340	698,794,637	716,637,977
Net assets at end of year	<u>\$ 19,211,276</u>	<u>\$ 685,090,445</u>	<u>\$ 704,301,721</u>

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

THE UNIVERSITY OF CINCINNATI FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30, 2023 and 2022

2023						
	Program Activities			Management and General	Fundraising	Total
	University Support	Alumni Experience	Program Subtotal			
Distributions to University of Cincinnati	\$ 69,755,344	\$ -	\$ 69,755,344	\$ -	\$ -	\$ 69,755,344
Assessment fee	5,983,568	-	5,983,568	-	-	5,983,568
Salaries and benefits	-	2,400,607	2,400,607	3,465,407	16,513,523	22,379,537
Promotional materials and events	-	559,124	559,124	28,554	1,495,523	2,083,201
Professional services	-	57,364	57,364	1,013,809	601,217	1,672,390
Information technologies	-	107,971	107,971	469,398	1,097,336	1,674,705
Depreciation and amortization	-	17,325	17,325	19,990	95,954	133,269
Occupancy	-	87,677	87,677	97,323	550,759	735,759
Miscellaneous	-	101,027	101,027	15,134	227,890	344,051
Direct marketing	-	133,319	133,319	2,340	334,728	470,387
Travel	-	48,563	48,563	4,596	341,243	394,402
Business meetings, dues, recruitment	-	27,723	27,723	155,909	210,183	393,815
Cultivation	-	16,170	16,170	4,294	300,310	320,774
Resource materials, postage and supplies	-	13,021	13,021	12,104	163,798	188,923
	\$ 75,738,912	\$ 3,569,891	\$ 79,308,803	\$ 5,288,858	\$ 21,932,464	\$ 106,530,125

2022						
	Program Activities			Management and General	Fundraising	Total
	University Support	Alumni Experience	Program Subtotal			
Distributions to University of Cincinnati	\$ 93,716,540	\$ -	\$ 93,716,540	\$ -	\$ -	\$ 93,716,540
Assessment fee	5,792,241	-	5,792,241	-	-	5,792,241
Salaries and benefits	-	2,087,912	2,087,912	3,071,199	14,344,158	19,503,269
Promotional materials and events	-	503,492	503,492	22,252	1,307,304	1,833,048
Professional services	-	34,388	34,388	848,960	580,966	1,464,314
Information technologies	-	71,549	71,549	175,888	1,104,563	1,352,000
Depreciation and amortization	-	6,309	6,309	7,887	38,382	52,578
Occupancy	-	84,838	84,838	97,067	569,811	751,716
Miscellaneous	-	122,984	122,984	16,760	331,731	471,475
Direct marketing	-	167,682	167,682	2,520	339,456	509,658
Travel	-	59,828	59,828	4,207	267,096	331,131
Business meetings, dues, recruitment	-	26,380	26,380	144,543	176,434	347,357
Cultivation	-	30,258	30,258	4,850	372,503	407,611
Resource materials, postage and supplies	-	11,850	11,850	11,666	155,234	178,750
	\$ 99,508,781	\$ 3,207,470	\$ 102,716,251	\$ 4,407,799	\$ 19,587,638	\$ 126,711,688

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2023 and 2022

	2023	2022
Operating activities:		
Payments to the University of Cincinnati	\$ (69,279,549)	\$ (90,463,303)
University fees, assessment fees and other	22,281,884	22,039,012
Cash paid for compensation	(21,293,452)	(18,944,526)
Cash received for gifts	48,959,833	67,309,382
Investment income available for distribution	6,797,067	17,690,133
Cash paid for operating expenses	(7,530,812)	(7,308,368)
Net cash used in operating activities	(20,065,029)	(9,677,670)
Investing activities:		
Proceeds from sale of investments	24,350,564	24,133,486
Purchase of investments	(34,016,038)	(43,173,777)
Purchase of property and equipment	(63,479)	-
Net cash used in investing activities	(9,728,953)	(19,040,291)
Financing activities:		
Proceeds from contributions to endowment and similar funds	23,645,342	25,036,460
Investment income restricted for reinvestment	869,117	1,815,334
Net cash provided by financing activities	24,514,459	26,851,794
Net decrease in cash and cash equivalents	(5,279,523)	(1,866,167)
Cash and cash equivalents, beginning of year	28,125,693	29,991,860
Cash and cash equivalents, end of year	\$ 22,846,170	\$ 28,125,693
Supplemental cash flows information:		
Gain on extinguishment of debt	\$ -	\$ 2,974,182

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

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE A – DESCRIPTION OF ORGANIZATION

The University of Cincinnati Foundation (the Foundation) is a not-for-profit organization that operates 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 for the benefit of the University. The Foundation also provides executive, administrative and fund-raising services to the UC Health Foundation (UCHF), with contributions being treated as agency transactions.

The Foundation is the single member of two limited liability companies, UCF Real Estate, LLC and UCF Holdings, LLC. UCF Real Estate, LLC is used primarily to receive and hold donated real estate property for the Foundation. UCF Holdings, LLC is used by the Foundation from time to time to primarily acquire and hold non-donated real estate property.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated 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). Intercompany transactions have been eliminated in consolidation. 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. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the organization.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some are temporary in nature and may or will be met either by actions of the Foundation and/or the passage of time. Other donor restrictions are perpetual in nature and 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 2023, the Foundation released approximately \$76,323,000 in restricted assets (\$4,117,000 for operations, maintenance, plant, \$38,903,000 for college programs, \$3,643,000 for instruction, \$1,973,000 for auxiliary, \$13,898,000 for scholarships, \$2,302,000 for academic support, \$6,977,000 for research and \$4,510,000 for other). In 2022, the Foundation released approximately \$100,180,000 in restricted assets (\$7,046,000 for operations, maintenance, plant, \$59,514,000 for college programs, \$3,642,000 for instruction, \$3,811,000 for auxiliary, \$16,948,000 for scholarships, \$1,631,000 for academic support, \$5,435,000 for research and \$2,153,000 for other).

Contributions received by the Foundation for the benefit of the University are classified as University contributions on the accompanying Consolidated Statements of Activities. Revenues from sources other

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Basis of Presentation (continued)

than contributions are reported as increases in net assets without donor restrictions 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 net assets without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

The Foundation reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports the expiration of donor restrictions when the assets are placed in service.

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 annual giving programs are generally written off to pledge loss 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 accompanying Consolidated Statements of Activities as a change in present value of annuities payable.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2023 and 2022, approximately \$25,441,000 and \$27,402,000, 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.

3. Custodial Credit Risk of Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation believes that due to the dollar amounts of cash deposits (see disclosure of cash equivalents in excess of FDIC insured limits in Note B2 above) and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Foundation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

4. 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.

5. Property and Equipment

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

6. 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 \$18,390,000 and \$19,055,000 at June 30, 2023 and 2022, respectively. Included in agency payable is approximately \$5,842,000 and \$7,183,000 for amounts due to or held for the benefit of UC Health Foundation as of June 30, 2023 and 2022, respectively.

7. Income Taxes

The Foundation is a not-for-profit organization as defined under Section 501(c)(3) of the Internal

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Income Taxes (continued)

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. Open tax years for the Foundation include 2022, 2021, and 2020. As of June 30, 2023, and 2022, the Foundation has no assets or liabilities recorded related to uncertain tax positions.

8. Self-Insurance

The Foundation has a self-insured medical plan covering all eligible employees. The individual excess risk benefit level per employee for 2023 and 2022 was \$100,000, with total exposure limited to approximately \$1,814,000 and \$1,889,000 at June 30, 2023 and 2022, respectively. Losses in excess of these limitations are covered by reinsurance. Amounts expensed by the Foundation under the plan were approximately \$1,590,000 and \$1,559,000 for the years ended June 30, 2023 and 2022, respectively. The Foundation has recorded an accrual of approximately \$200,000 and \$150,000 at June 30, 2023 and 2022, respectively, for known claims and estimated claims incurred but not reported.

9. 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.

10. 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.

11. Concentrations

University support represents a significant portion of the Foundation's revenues without donor restrictions. For the years ended June 30, 2023 and 2022, the University fee was 11% and 8%, respectively, of total revenues and other additions without donor restrictions on the Consolidated Statements of Activities.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. 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 adjusts for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

13. Leases

The Foundation leases its corporate facility and certain office equipment. The Foundation determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets on the accompanying 2023 Consolidated Statement of Financial Position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the Foundation uses a risk-free rate based on the information available at the commencement date to determine the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. When leases contain non-lease components, the Foundation accounts for the lease and non-lease components as a single lease component. The Foundation's lease agreements do not contain any material non-lease components.

When evaluating contracts to determine if they qualify as a lease, the Foundation considers factors such as if it has obtained substantially all the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the assets will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

14. Functional Reporting of Expenses

The Foundation was created to provide support to the University. The cost of providing program and other activities have been summarized on a functional basis in the accompanying Consolidated Statements of Activities. The consolidated financial statements report certain expense categories that are attributable to more than one program or supporting function; therefore, these expenses require allocation on a reasonable basis that is consistently applied. All expenses, except for distributions to University of Cincinnati and assessment fee, included in the accompanying Consolidated Statements of Functional Expenses, are allocated based on the related function or full-time equivalents, which include employees and departments that cross over multiple functions (program, management and general, and fundraising). The assessment fee included in the functional expense schedule is assessed on those endowments where the Foundation is the trustee. The fee is assessed on the distributions sent to the University, which are used in accordance with the specific funds' purpose and restrictions. Therefore, the assessment fee is considered a program function.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Operating Expenses

All activities directly related to the ongoing operations of the Foundation are summarized on a functional basis on the accompanying Consolidated Statements of Activities. All other activities are classified as non-operating, which includes the change in present value of annuities (Note O).

16. Paycheck Protection Program Loan

On April 20, 2020, the Foundation received a Paycheck Protection Program (PPP) term note of \$2,938,800 through one of its primary banks. The note was issued pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act administered by the Small Business Administration (SBA). Under the terms of the program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing levels and salary maintenance requirements are met.

During the year ended June 30, 2021, the Foundation applied for full forgiveness. On October 28, 2021, the Foundation's loan in the amount of \$2,938,800 and accrued interest in the amount of \$35,382 were forgiven by the SBA and are recorded as gain on extinguishment of debt in the accompanying 2022 Consolidated Statement of Activities. The SBA has the ability to review the Foundation's loan file for a period subsequent to the date the loan is forgiven. The results of any review could result in the SBA requesting additional documentation to support the Foundation's initial eligibility for the loan and request for loan, with the potential for the SBA to pursue legal remedies at its discretion.

17. Availability and Liquidity

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish donor restricted endowments; the income generated from which is to be used in accordance with the associated purpose restrictions. In addition, the Foundation receives support without donor restriction from the University, UCHF, assessment fees on current use and endowment funds, and temporary investment income on current use gifts to provide the majority of funding for annual operations.

The Foundation manages its cash available to meet general expenditures by operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets and maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

General expenditures include administrative, general, and fundraising expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

17. Availability and Liquidity (continued)

The table below presents financial assets available for general expenditures within one year at June 30, 2023:

Financial assets at year-end:	
Cash and cash equivalents	\$ 22,846,170
Due from University of Cincinnati	1,162,664
Due from UC Health Foundation	684,980
Accrued interest receivable	1,166,565
Stock proceeds receivable	304,234
Pledges receivable	107,652,449
Investments	<u>629,834,834</u>
Total financial assets	<u>\$ 763,651,896</u>
Less amounts not available for use within one year due to:	
Donor restrictions:	
Cash and cash equivalents	\$ (9,714,426)
Accrued interest receivable	(999,660)
Stock proceeds receivable	(304,234)
Pledges receivable	(107,652,449)
Investments	<u>(624,981,350)</u>
Total	<u>\$ (743,652,119)</u>
Board restrictions:	
Investments	<u>\$ (2,827,543)</u>
Financial assets available to meet general expenditures	<u>\$ 17,172,234</u>

The table below presents financial assets available for general expenditures within one year at June 30, 2022:

Financial assets at year-end:	
Cash and cash equivalents	\$ 28,125,693
Due from UC Health Foundation	1,078,084
Accrued interest receivable	961,636
Stock proceeds receivable	5,664
Pledges receivable	91,184,772
Investments	<u>596,826,464</u>
Total financial assets	<u>\$ 718,182,313</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

17. Availability and Liquidity (continued)

Less amounts not available for use within one year due to:

Donor restrictions:

Cash and cash equivalents	\$	(15,095,375)
Accrued interest receivable		(813,276)
Stock proceeds receivable		(5,664)
Pledges receivable		(91,184,772)
Investments		<u>(592,000,439)</u>
Total	\$	<u>(699,099,526)</u>

Board restrictions:

Investments	\$	<u>(2,817,720)</u>
-------------	----	--------------------

Financial assets available to meet general expenditures	\$	<u>16,265,067</u>
---	----	-------------------

The Foundation maintains reserves to cover approximately three months of operating expenditures, balance the fiscal year's budget, and provide for unanticipated strategic needs. Allocation of reserves is reviewed and approved as part of the budgetary process. Spending of reserves outside of the budgetary process requires additional internal review and approvals, as well as applicable board or committee approvals.

18. Effect of Adopting New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification (ASC) 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition on the statement of financial position of ROU assets and lease liabilities by lessees for those leases classified as operating leases. The expense recognition for operating leases remains substantially unchanged and continues to be recognized as lease expense. Additionally, capital leases under previous leasing guidance are referred to as finance leases under FASB ASC 842, however, the classification criteria and expense recognition criteria remain substantially unchanged. Other changes include referring to contingent lease expense as variable lease expense under FASB ASC 842 and providing various practical expedients to ease the burden of complying with the standard. Under the standard, disclosures are required to meet the objective of enabling users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

18. Effect of Adopting New Accounting Standard (continued)

The Foundation adopted the standard effective July 1, 2022, using the modified retrospective approach, and recognized and measured leases existing at, or entered after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Under the practical expedients, the Foundation did not reassess the lease classification for any expired or existing leases, or whether any expired or existing contracts are or contain leases. Lease disclosures for the fiscal year ended June 30, 2022, remain under prior lease guidance in accordance with FASB ASC 840. As a result of the adoption of the new lease accounting guidance, the Foundation recognized on July 1, 2022, a lease liability and ROU asset of \$540,279, which represents the present value of the remaining operating lease payments of \$559,981, discounted using a risk-free rate for a period comparable to the remaining lease term.

19. Accounting Pronouncement Issued and Not Yet Implemented

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13), *Financial Instruments – Credit Losses*, which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for the Foundation for the year ended June 30, 2024, and is not expected to have a material impact on the Foundation’s financial position or results of operations.

NOTE C – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions were as follows for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 16,088,750	\$ 15,676,726
Board designated	<u>3,562,697</u>	<u>3,534,550</u>
Total net assets without donor restrictions	<u>\$ 19,651,447</u>	<u>\$ 19,211,276</u>

Endowment funds included in net assets without donor restrictions are \$3,562,697 and \$3,534,550 as of June 30, 2023 and 2022, respectively. See Note F for more information on endowment funds.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE D – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
College programs	\$ 347,601,338	\$ 334,071,134
Capital projects	14,148,179	6,664,655
Scholarships	187,885,482	180,854,895
Instruction	57,008,203	51,155,702
Academic support	45,500,944	45,043,175
Research	38,017,485	36,752,447
Annuity and life income funds	5,815,300	4,554,824
Auxiliary	15,019,040	14,895,845
Other	<u>20,644,750</u>	<u>11,097,768</u>
Total net assets with donor restrictions	<u>\$ 731,640,721</u>	<u>\$ 685,090,445</u>

Endowment funds included in net assets with donor restrictions are \$608,816,850 and \$577,940,909 as of June 30, 2023 and 2022, respectively. See Note F for more information on endowment funds.

NOTE E – PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately \$124,536,000 and \$103,088,000 as of June 30, 2023 and 2022, respectively. For payments that extend beyond one year, these pledges receivable have been discounted at rates ranging from 0.5% to 6.0% to a net present value of approximately \$114,356,000 and \$96,199,000 as of June 30, 2023 and 2022, respectively.

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

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 30,477,854	\$ 29,043,226
One to five years	58,850,235	49,025,852
More than five years	<u>35,207,882</u>	<u>25,018,660</u>
	124,535,971	103,087,738
Less discount to present value	(10,179,595)	(6,888,316)
Less allowance for uncollectible pledges	<u>(6,703,927)</u>	<u>(5,014,650)</u>
	<u>\$ 107,652,449</u>	<u>\$ 91,184,772</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE E – PLEDGES RECEIVABLE (continued)

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, 2023 and 2022 are approximately \$15,095,000 and \$15,302,000, respectively. The irrevocable bequests are included in the total amount of unconditional pledges due and fall primarily within the due in more than five years category. The allowance for uncollectible pledges includes approximately \$141,000 and \$138,000 associated with the irrevocable bequests, as of June 30, 2023 and 2022, respectively.

As of June 30, 2023 and 2022, twenty-seven and thirty-one donors, respectively, have outstanding conditional pledges to the Foundation. As of June 30, 2023 and 2022, the conditions were not substantially met, therefore, the net present value of the pledges is not included in pledges receivable. The net present value of the conditional pledges approximated \$9,978,000 and \$19,239,000 as of June 30, 2023 and 2022, respectively.

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.

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 Uniform Prudent Management of Institutional Funds Act (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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE F – ENDOWMENT FUNDS (continued)

In accordance with the Foundation’s interpretation of UPMIFA, investment income and appreciation or depreciation earned on investments held in the donor-restricted endowment funds are credited to net assets with donor restrictions until the later of the satisfaction of donor restrictions, if applicable, or appropriation for expenditure by the Foundation’s Board of Trustees. 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 1,511 and 1,442 endowment funds, at June 30, 2023 and 2022, respectively.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. Deficiencies of this nature exist in 453 donor-restricted endowment funds, which together have an original gift value of \$133,638,641, and current fair value of \$121,862,981, and a deficiency of \$11,775,660 as of June 30, 2023. Deficiencies of this nature exist in 419 donor-restricted endowment funds, which together have an original gift value of \$125,506,696, and current fair value of \$113,303,561 and a deficiency of \$12,203,135 as of June 30, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income. The spending rate was 4.1% and 4.2% in fiscal years 2023 and 2022, respectively, of the rolling 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 2023 and 2022, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$21,571,000 and \$3,834,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2023 and 2022.

The Foundation is also funded by a fee assessed on certain endowment funds held by the University and the Foundation, which also falls under UPMIFA. See Note N for more information.

The endowment net asset composition by type of fund as of June 30, 2023, was as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted endowment funds:			
Original amount	\$ -	\$ 494,343,717	\$ 494,343,717
Accumulated gains	-	71,069,393	71,069,393
Term endowments	-	43,403,740	43,403,740
Board designated endowment funds	<u>3,562,697</u>	<u>-</u>	<u>3,562,697</u>
Total	<u>\$ 3,562,697</u>	<u>\$ 608,816,850</u>	<u>\$ 612,379,547</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE F – ENDOWMENT FUNDS (continued)

The endowment net asset composition by type of fund as of June 30, 2022, was as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted endowment funds:			
Original amount	\$ -	\$ 458,946,784	\$ 458,946,784
Accumulated gains	-	74,041,349	74,041,349
Term endowments	-	44,952,776	44,952,776
Board designated endowment funds	<u>3,534,550</u>	<u>-</u>	<u>3,534,550</u>
Total	<u>\$ 3,534,550</u>	<u>\$ 577,940,909</u>	<u>\$ 581,475,459</u>

The change in endowment fund net assets for the year ended June 30, 2023, is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,534,550	\$ 577,940,909	\$ 581,475,459
Investment income:			
Interest and dividend income	140,921	7,317,530	7,458,451
Net realized /unrealized gains	<u>215,848</u>	<u>22,558,686</u>	<u>22,774,534</u>
Total investment income	356,769	29,876,216	30,232,985
Contributions and other transfers	-	23,645,342	23,645,342
Appropriation of endowment assets for expenditure	(328,622)	(28,701,325)	(29,029,947)
Other changes:			
Other income	-	4,456,474	4,456,474
Income reinvestment	<u>-</u>	<u>1,599,234</u>	<u>1,599,234</u>
Endowment net assets, end of year	<u>\$ 3,562,697</u>	<u>\$ 608,816,850</u>	<u>\$ 612,379,547</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE F – ENDOWMENT FUNDS (continued)

The change in endowment fund net assets for the year ended June 30, 2022, is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,951,625	\$ 571,940,095	\$ 574,891,720
Investment income (loss):			
Interest and dividend income	234,089	18,999,816	19,233,905
Net realized /unrealized losses	<u>(6,345)</u>	<u>(19,604,390)</u>	<u>(19,610,735)</u>
Total investment income (loss)	227,744	(604,574)	(376,830)
Contributions and other transfers	630,000	24,406,460	25,036,460
Appropriation of endowment assets for expenditure	(274,819)	(22,793,202)	(23,068,021)
Other changes:			
Other income	-	3,124,564	3,124,564
Income reinvestment	<u>-</u>	<u>1,867,566</u>	<u>1,867,566</u>
Endowment net assets, end of year	<u>\$ 3,534,550</u>	<u>\$ 577,940,909</u>	<u>\$ 581,475,459</u>

NOTE G – INVESTMENTS

The Foundation combines its pooled investment securities with the investment pool of the University 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 month. Income is allocated to each fund in the pool based on units of participation. The investment pool consists of Fund A and Fund C. In July 2016, Fund C was created by segregating each share of Fund A into one share of Fund A, which owns the diversified portfolio of investment funds in separate accounts, in one share of Fund C, which owns neighborhood development corporation loans (“NDCLs”) and strategic real estate. As NDCLs and strategic real estate produce distributions to Fund C unitholders, the proceeds will be used to periodically purchase newly-created Fund A units for the Fund C unitholders. No additional assets will be purchased within Fund C. It is expected that Fund C will cease to exist by June 30, 2040, as the last distributions are made from NDCLs. As of June 30, 2023 and 2022, the University is holding approximately \$4,810,000 and \$4,215,000, respectively, that is to be invested in the University pooled investments. These amounts are recorded as cash equivalents in the accompanying Consolidated Statements of Financial Position.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE G – INVESTMENTS (continued)

The Foundation also manages other investments, which amounted to approximately \$71,924,000 and \$67,213,000 as of June 30, 2022 and 2021, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

The following presents investments held by the Foundation as of June 30, 2023 and 2022:

	<u>2023</u> <u>Fair Value</u>	<u>2023</u> <u>Cost</u>	<u>2022</u> <u>Fair Value</u>	<u>2022</u> <u>Cost</u>
Cash equivalents	\$ 7,575,196	\$ 7,575,196	\$ 5,537,551	\$ 5,537,551
Government and agency obligations	8,367,684	8,890,497	4,809,841	5,156,581
Corporate bonds	9,494,134	10,161,012	10,404,234	11,147,392
Mutual funds	14,642,719	14,952,314	17,742,306	17,349,136
Equities	25,635,232	19,506,559	22,133,667	18,673,021
Real estate and other	11,020,000	10,800,000	10,800,000	10,800,000
University pooled investments (Fund A and Fund C)	<u>564,119,869</u>	<u>534,491,141</u>	<u>536,198,865</u>	<u>500,703,497</u>
Total	<u>\$ 640,854,834</u>	<u>\$ 606,376,719</u>	<u>\$ 607,626,464</u>	<u>\$ 569,367,178</u>

The number of units in Fund A owned by the Foundation totaled 6,445,895 and 6,049,490, which represents 40.9% and 40.8% of the Fund A pool, as of June 30, 2023 and 2022, respectively. Fund A holds 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 Foundation owned 3,968,064 shares or 36.1% of the C pool, as of June 30, 2023 and 2022. The C 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 as of June 30, 2023 and 2022, for the underlying investments 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, 2023 and 2022. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2023 and 2022.

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 UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE G – INVESTMENTS (continued)

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

	2023	2022
Fund A		
U.S. and international equity securities	30%	31%
Hedge funds and private equity capital	52	51
Fixed income securities	14	13
Fund C		
Real estate and community development	4	5
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 publicly-traded common stock, exchange-traded funds, and mutual funds. Financial instruments measured at fair value using inputs based on quoted market prices for similar instruments in active markets (or level 2 inputs) include U.S. Government and agency obligations and corporate bonds. U. S. Government and agency obligations are priced using auction data or yield curve analysis. Corporate bonds are priced using trading data if available, or when trading data are 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 invests in the University pooled investments which are 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).

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 accompanying Consolidated Statements of Financial Position at June 30, 2023:

	Balance at June 30, 2023	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
ASSETS				
Investments:				
Common stock:				
Consumer	\$ 2,577,712	\$ 2,577,712	\$ -	\$ -
Health care	2,057,294	2,057,294	-	-
Financial	2,523,591	2,523,591	-	-
Technology	3,471,010	3,471,010	-	-
Materials	139,829	139,829	-	-
Energy	794,190	794,190	-	-
Industrial	2,219,135	2,219,135	-	-
Utilities	514,113	514,113	-	-
Telecommunication	307,062	307,062	-	-
Other	204,638	204,638	-	-
Total common stocks	<u>14,808,574</u>	<u>14,808,574</u>	-	-
Exchange-traded funds (ETFs):				
Index - equity	9,699,884	9,699,884	-	-
Index – emerging markets	874,293	874,293	-	-
Other	252,481	252,481	-	-
Total exchange-traded funds	<u>10,826,658</u>	<u>10,826,658</u>	-	-
Mutual funds:				
Fixed	5,563,858	5,563,858	-	-
Value	660,552	660,552	-	-
Growth	1,698,008	1,698,008	-	-
Blended	6,676,963	6,676,963	-	-
Other	43,338	43,338	-	-
Total mutual funds	<u>14,642,719</u>	<u>14,642,719</u>	-	-
Corporate bonds	9,494,134	-	9,494,134	-
Government and agency obligations	8,367,684	-	8,367,684	-
University pooled investments	564,119,869	-	-	564,119,869
Real estate and other	11,020,000	-	11,020,000	-
Total investments at fair value	<u>\$ 633,279,638</u>	<u>\$ 40,277,951</u>	<u>\$ 28,881,818</u>	<u>\$ 564,119,869</u>
Trusts held by others	<u>\$ 14,016,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,016,715</u>
LIABILITIES				
Trusts held for the benefit of others	<u>\$ 3,892,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,892,974</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 accompanying Consolidated Statements of Financial Position at June 30, 2022:

	Balance at June 30, 2022	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
ASSETS				
Investments:				
Common stock:				
Consumer	\$ 3,155,601	\$ 3,155,601	\$ -	\$ -
Health care	1,646,111	1,646,111	-	-
Financial	2,519,028	2,519,028	-	-
Technology	3,148,520	3,148,520	-	-
Materials	263,449	263,449	-	-
Energy	674,105	674,105	-	-
Industrial	2,089,845	2,089,845	-	-
Utilities	596,426	596,426	-	-
Telecommunication	299,436	299,436	-	-
Other	426,295	426,295	-	-
Total common stocks	<u>14,818,816</u>	<u>14,818,816</u>	-	-
Exchange-traded funds:				
Index	5,838,316	5,838,316	-	-
Index - emerging markets	633,784	633,784	-	-
Income	779,565	779,565	-	-
Other	63,186	63,186	-	-
Total exchange-traded funds	<u>7,314,851</u>	<u>7,314,851</u>	-	-
Mutual funds:				
Blended	9,086,885	9,086,885	-	-
Fixed income	6,317,237	6,317,237	-	-
Growth	1,747,575	1,747,575	-	-
Value	448,545	448,545	-	-
Other	142,064	142,064	-	-
Total mutual funds	<u>17,742,306</u>	<u>17,742,306</u>	-	-
Corporate bonds	10,404,234	-	10,404,234	-
Government and agency obligations	4,809,841	-	4,809,841	-
University pooled investments	536,198,865	-	-	536,198,865
Real estate and other	10,800,000	-	10,800,000	-
Total investments at fair value	<u>\$ 602,088,913</u>	<u>\$ 39,875,973</u>	<u>\$ 26,014,075</u>	<u>\$ 536,198,865</u>
Trusts held by others	<u>\$ 12,466,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,466,889</u>
LIABILITIES				
Trusts held for the benefit of others	<u>\$ 3,880,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,880,193</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Net unrealized and realized gains (losses) related to fair value instruments total approximately \$23,563,000 and (\$21,351,000) as of June 30, 2023 and 2022, respectively, and are included in net unrealized and realized gains (losses) in the accompanying Consolidated Statements of Activities, except for those fair value instruments where the Foundation is not the beneficiary.

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 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.

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2023, is as follows:

	<u>University pooled investments</u>	<u>Trusts held by others</u>	<u>Trusts held for the benefit of others</u>
Beginning balance	\$ 536,198,865	\$ 12,466,889	\$ 3,880,193
Purchases and contributions	34,505,992	-	15,150
Interest and dividend income	1,818,260	-	152,103
Reinvested income	1,537,405	-	7,786
Liquidations	(22,714,834)	-	(167,096)
Net unrealized and realized gains	<u>12,774,181</u>	<u>1,549,826</u>	<u>4,838</u>
Ending balance	<u>\$ 564,119,869</u>	<u>\$ 14,016,715</u>	<u>\$ 3,892,974</u>

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2022, is as follows:

	<u>University pooled investments</u>	<u>Trusts held by others</u>	<u>Trusts held for the benefit of others</u>
Beginning balance	\$ 529,254,236	\$ 16,910,074	\$ 3,025,377
Purchases and contributions	23,980,195	-	911,290
Interest and dividend income	14,390,095	-	144,008
Reinvested income	3,244,719	-	7,243
Liquidations	(19,133,699)	(1,216,736)	(143,293)
Net unrealized and realized losses	<u>(15,536,681)</u>	<u>(3,226,449)</u>	<u>(64,432)</u>
Ending balance	<u>\$ 536,198,865</u>	<u>\$ 12,466,889</u>	<u>\$ 3,880,193</u>

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Real estate and other includes donated property and property under contract for sale. These properties are recorded at their fair value based on independent appraisals performed periodically or the sales contract amount, as applicable.

Cash equivalents at June 30, 2023 and 2022, are \$7,575,196 and \$5,537,551, and are included in investments on the accompanying Consolidated Statements of Financial Position. These amounts are not measured at fair value on a recurring basis and, therefore, they are excluded from the fair value hierarchy.

Gains and losses for level 3 fair value instruments are included in net unrealized and realized gains (losses) in the accompanying Consolidated Statements of Activities. The total amount of gains (losses) above included in changes in net assets that is attributable to assets held at June 30, 2023 and 2022 is approximately \$14,329,000 and (\$18,828,000), respectively.

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 applicable. NDC loans are stated at the principal amount plus accrued interest less an allowance for loan losses. As of June 30, 2023 and 2022, 49% and 45%, respectively, 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 most significant properties subject to the loan loss reserve are as follows:

<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Expected future cash flows	Future occupancy rates	90% - 100%
	Future operating expenses (as a percentage of total revenue)	32% - 60%
	Average annual rental rate increase	2%

University 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, an increase to the loan loss reserve is recorded.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE H – FAIR VALUE MEASUREMENTS (continued)

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 rate commensurate with the cash flow risk of the trusts' assets. The following table represents the Foundation's valuation technique, significant unobservable inputs, and ranges of values of those inputs for trusts held by others which are approximately \$14,016,715 and \$12,467,000 at June 30, 2023 and 2022, respectively.

<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Discounted cash flows	Projected investment income	0% – 11%
	Life expectancy of beneficiaries	5 - 46 years
	Discount rate	5% - 11%

Trusts held for the benefit of others are included as a liability on the accompanying June 30, 2023 and 2022 Consolidated Statements of Financial Position. The trusts are stated at fair value, which is an equal and offsetting amount to the trusts' underlying investments that are included in University pooled investments at fair value on the accompanying June 30, 2023 and 2022 Consolidated Statements 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 – EQUIPMENT AND SOFTWARE

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

	<u>2023</u>	<u>2022</u>
Office equipment	\$ 833,313	\$ 812,667
Software	4,622,223	4,914,951
Automobile	67,013	67,013
Computer equipment	230,513	187,679
	<u>5,753,062</u>	<u>5,982,310</u>
Less accumulated depreciation and amortization	<u>(5,691,391)</u>	<u>(5,979,101)</u>
	<u>\$ 61,671</u>	<u>\$ 3,209</u>

Amortization and depreciation expenses were approximately \$133,000 and \$53,000 for the years ended June 30, 2023 and 2022, respectively, and are included in expenses and other deductions in the accompanying Consolidated Statements of Activities.

NOTE J – LEASES

As discussed in Note B, the Foundation adopted ASC 842 effective July 1, 2022. Lease disclosures for the year ended June 30, 2023, are in accordance with ASC 842. Lease disclosures for the year ended June 30, 2022, are in accordance with ASC 840.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE J – LEASES (continued)

The Foundation has operating leases for a building and certain office equipment under noncancellable leases expiring in various years through fiscal year 2026. The building lease has two renewable twenty-year terms, however, the Foundation does not expect to exercise the option to renew. The Foundation's operating leases do not contain variable lease payments. Operating lease expense recognized during the year ended June 30, 2023 was approximately \$246,000. The Foundation has no finance leases.

A summary of other lease information for the year ended June 30, 2023, is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from leases	\$ 245,672
Weighted-average remaining lease term (in years)	1.3
Weighted-average discount rate	2.8%

Future minimum lease payments under noncancellable leases as of June 30 are as follows:

2024	\$ 245,672
2025	65,642
2026	<u>2,995</u>
Total future minimum lease payments	314,309
Less: imputed interest	<u>(6,833)</u>
Total	<u>\$ 307,476</u>

Rental expense for operating leases was \$239,470 for the year ended June 30, 2022.

NOTE K – LIFE INSURANCE POLICIES

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the accompanying Consolidated 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, 2023 and 2022. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, is approximately \$2,846,000 and \$2,856,000 as of June 30, 2023 and 2022, respectively.

NOTE L – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

As of June 30, 2023 and 2022, the Foundation has been notified of twelve trusts held by other trustees where the remainder interest will irrevocably benefit the University. 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.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE L – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES (continued)

Beneficial interest in trusts held by other trustees amounted to approximately \$14,017,000 and \$12,467,000 as of June 30, 2023 and 2022, respectively.

NOTE M – UNIVERSITY FEE

In accordance with an agreement with the University, operating support of approximately \$9,950,000 was provided by the University during the years ended June 30, 2023 and 2022. The Foundation also receives investment income earned on unexpended gift fund balances held at the University. For the years ended June 30, 2023 and 2022, investment income (loss) on unexpended gift fund balances was \$2,060,000 and (\$506,000), respectively.

The University provided to the Foundation at no charge, the use of the building in which the Alumni Relations Department conducts business for the years ended June 30, 2023 and 2022. The value of donated occupancy costs is estimated to be approximately \$193,000 each year and is included in University fee with an equal and offsetting amount recorded in expenses and other deductions on the accompanying Consolidated Statements of Activities.

NOTE N – ASSESSMENT FEE

The Foundation is also 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 not prohibited assessment of the fee, and unrestricted funds that do not have an internal designation. The gross assessment rate was 1% in 2023 and 2022. Revenue to the Foundation from the fee was approximately \$9,508,000 and \$8,688,000 in 2023 and 2022, respectively, and is used to fund Foundation operations. Approximately \$4,259,000 and \$3,834,000 of this fee was recorded from funds held by the Foundation in 2023 and 2022, 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 is 5% of the spending policy distribution made to the endowment spending account. Revenue to the Foundation from the fee was approximately \$584,000 and \$555,000 in 2023 and 2022, respectively. Approximately \$111,000 and \$105,000 of this fee was recorded from funds held by the Foundation in 2023 and 2022, respectively.

The Foundation charges a fee to be assessed upon all spendable, cash gifts made to the University, the Foundation or UC Health Foundation. The gift administrative rate is 5% for gifts less than \$100,000, 3% for gifts from \$100,000 to less than \$5 million, 1% for gifts from \$5 million to less than \$10 million, and 0.5% on gifts over \$10 million, upon the receipt of cash to gift, plant and loan funds. Revenue to the Foundation from the fee was approximately \$2,138,000 and \$2,190,000 in 2023 and 2022, respectively. Approximately \$1,614,000 and \$1,853,000 of this fee was recorded from funds received by the Foundation in 2023 and 2022, respectively.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE O – 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.

Prior to July 1, 2017, the present value of annuities payable is recorded using the Foundation’s estimated borrowing rate. The present value is calculated by discounting the life income payments using an average interest rate swap plus 200 BP for the time period which most closely matches the average life expectancy of the income beneficiaries. Present values of annuities payable after July 1, 2017, were calculated using the IRS Discount Rate in the month that the trust was created. Changes in future payments due to the life expectancy of beneficiaries and amortization of the discount are reflected in change in the present value of annuities payable on the accompanying Consolidated Statements of Activities. The assets and liabilities of these funds as of June 30 are:

	2023	2022
Annuities		
Investments, at fair value	\$ 3,216,206	\$ 3,085,140
Less present value of annuities payable	(1,394,752)	(1,415,436)
	\$ 1,821,454	\$ 1,669,704
	2023	2022
Trusts		
Investments, at fair value	\$ 11,412,028	\$ 11,303,117
Less present value of annuities payable	(5,852,566)	(7,535,432)
	\$ 5,559,462	\$ 3,767,685

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

For the year ended June 30, 2023, the Foundation received contributions of approximately \$170,000 and \$200,000 for annuities and unitrusts, respectively. For the year ended June 30, 2022, the Foundation received contributions of approximately \$220,000 and \$100,000 for annuities and unitrusts, respectively.

NOTE P – RETIREMENT PLANS

The Foundation participates in a qualified and contributory retirement plan (TIAA) covering eligible employees. 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 \$1,271,000 and \$1,189,000 for the years ended June 30, 2023 and 2022, respectively.

THE UNIVERSITY OF CINCINNATI FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE P – RETIREMENT PLANS (continued)

The Foundation also maintains a Section 457(b) plan for highly compensated employees. Accounts for 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, 2023 and 2022. Although these deferred compensation liabilities are unsecured, assets designated to fund these liabilities are reported in other assets on the accompanying Consolidated Statements of Financial Position. Such assets are subject to the claims of the general creditors of the Foundation.

NOTE Q – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, the Foundation entered into an agreement with the UC Health Foundation (UCHF) to provide executive, administrative and fund-raising services for a monthly fee. The fee is reimbursement for the cost incurred by the Foundation for providing support to UCHF. During 2023 and 2022, the Foundation incurred approximately \$3,493,000 and \$2,577,000, respectively, in expenses and recognized corresponding revenue under the terms of the agreement. These expenses and revenues are reported in expenses and other deductions and UC Health Foundation fee in the accompanying Statements of Activities.

For the years ended June 30, 2023 and 2022, the Foundation collected contribution payments from certain board members of the Foundation of approximately \$3,291,000 and \$1,526,000, respectively. At June 30, 2023 and 2022, the pledges receivable balance on the accompanying Consolidated Statements of Financial Position included board member pledges of approximately \$3,854,000 and \$3,150,000, respectively. In addition, certain board members are employees of organizations which provide services to the Foundation. Total fees paid to these organizations were approximately \$115,000 and \$211,000 for the years ended June 30, 2023 and 2022, respectively.

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

NOTE R – SUBSEQUENT EVENTS

The Foundation evaluated its June 30, 2023, consolidated financial statements for subsequent events through October 11, 2023, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF CINCINNATI FOUNDATION

**SCHEDULE OF ACTIVITIES -
NET ASSETS WITHOUT DONOR RESTRICTIONS**

Year ended June 30, 2023

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions	\$ 1,229,983	\$ 129,913	\$ 1,359,896
University fee	-	12,202,509	12,202,509
UC Health Foundation fee	-	3,493,328	3,493,328
Assessment fee	-	12,230,321	12,230,321
Change in value of split interest agreements	10,922	-	10,922
Other income	48	202,957	203,005
Investment income:			
Dividend and interest income	328,753	95,333	424,086
Net unrealized and realized gains	710,643	12,205	722,848
Net assets released from restrictions - satisfaction of donor restrictions	76,323,381	-	76,323,381
Total revenues and other additions	78,603,730	28,366,566	106,970,296
Expenses and other deductions:			
Programs activities:			
Distributions to University of Cincinnati	69,755,344	-	69,755,344
Alumni experience	155,570	3,414,321	3,569,891
Assessment fee	5,983,568	-	5,983,568
Total program activities	75,894,482	3,414,321	79,308,803
Supporting services:			
Management and general	-	5,288,858	5,288,858
Fundraising	1,244,398	20,688,066	21,932,464
Total support services	1,244,398	25,976,924	27,221,322
Total expenses and other deductions	77,138,880	29,391,245	106,530,125
Increase (decrease) in net assets	1,464,850	(1,024,679)	440,171
Net assets, beginning of year	(1,056,665)	20,267,941	19,211,276
Net assets, end of year	\$ 408,185	\$ 19,243,262	\$ 19,651,447

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

Independent Auditor's Report

To Management and 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 consolidated financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2023 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 11, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's 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 consolidated 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 internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

To Management and the Board of Trustees
The University of Cincinnati Foundation

Purpose of This Report

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 communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 11, 2023

OHIO AUDITOR OF STATE KEITH FABER



UNIVERSITY OF CINCINNATI FOUNDATION

HAMILTON COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/12/2023

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov