Consolidated Financial Statements and Report of Independent Certified Public Accountants

The University of Cincinnati Foundation

June 30, 2018 and 2017

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The University of Cincinnati Foundation, Hamilton County, prepared by Plante and Moran, PLLC, for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

October 4, 2018

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Independent Auditor's Report

To the Board of Trustees
The University of Cincinnati Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The University of Cincinnati Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Cincinnati Foundation as of June 30, 2018 and 2017 and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
The University of Cincinnati Foundation

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The supplemental schedule of detail of operating expenses and supplemental schedule of activities – unrestricted net assets (deficit) 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 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 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 information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

Emphasis of Matter

As described in Note H to the consoldiated financial statements, the Foundation has investments valued at approximately $385,760,000 (71 percent of net assets) and $343,443,000 (69 percent of net assets) as of June 30, 2018 and 2017, respectively, whose fair values have been estimated by management in the absense 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2018 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 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 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

September 19, 2018

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 11,741,851	$ 10,349,843
Due from University of Cincinnati	1,005,577	980,246
Due from UC Health Foundation	615,137	763,054
Accrued interest receivable	839,951	655,052
Stock proceeds receivable	-	282,270
Prepaid expenses	472,099	433,777
Pledges receivable, net of allowance	98,479,600	94,699,382
Trusts held by others	13,594,955	10,157,614
Cash surrender value of life insurance policies	596,981	1,288,061
Other	221,827	96,914
Investments:		
Mutual funds	23,129,110	23,523,168
Common stocks and exchange traded funds	12,322,247	11,691,018
Other	4,042,282	10,753,057
Corporate bonds	9,101,832	9,172,872
U.S. Government and agency obligations	4,985,414	4,209,417
Real estate	350,000	840,000
University pooled investments	385,327,055	342,520,697
Total investments	439,257,940	402,710,229
Property and equipment:		
Leasehold improvements, net of accumulated amortization of $1,420,545 in 2018 and $1,374,707 in 2017	142,035	174,804
Equipment and software, net of accumulated depreciation of $3,924,125 in 2018 and $3,037,463 in 2017	2,218,462	3,035,097
	$ 569,186,415	$ 525,626,343
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 692,743	$ 965,715
Accrued liabilities	628,874	1,028,011
Accrued compensated absences	789,527	768,712
Agency payable	10,340,227	12,580,686
Deferred support	210,312	232,573
Trusts held for the benefit of others	1,799,437	1,455,514
Refundable deposits	781,141	779,384
Accrued interest income due to investment pool	467,483	341,864
Present value of annuities payable	6,823,623	6,619,239
TOTAL LIABILITIES	22,533,367	24,771,698
NET ASSETS (DEFICIT)		
Unrestricted	(8,920,942)	(19,072,101)
Temporarily restricted	187,549,824	175,571,158
Permanently restricted	368,024,166	344,355,588
TOTAL NET ASSETS	546,653,048	500,854,645
	$ 569,186,415	$ 525,626,343

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 538,816	$ 53,688,044	$ 21,104,945	$ 75,331,805
Donated services	114,271	-	-	114,271
University fee	17,989,646	20,640	-	18,010,286
UC Health Foundation fee	2,016,038	-	-	2,016,038
Assessment fee	9,817,699	-	-	9,817,699
Change in value of split interest agreements	34,404	239,172	600,739	874,315
Other income	357,326	659,325	598,342	1,614,993
Investment income:				
Dividend and interest income	331,406	8,137,995	61,822	8,531,223
Net unrealized and realized gains	3,837,459	15,690,211	1,609,347	21,137,017
Pledge loss	-	(1,741,332)	(111,466)	(1,852,798)
Net assets released from restrictions - satisfaction of donor restrictions	64,126,011	(64,126,011)	-	-
Total revenues and other additions	99,163,076	12,568,044	23,863,729	135,594,849
Expenses and other deductions:				
Distributions to University of Cincinnati	60,522,872	-	-	60,522,872
Operating expenses	23,733,103	-	-	23,733,103
Assessment fee	4,755,942	-	-	4,755,942
Total expenses	89,011,917	-	-	89,011,917
Change in present value of annuities payable	-	589,378	195,151	784,529
Total expenses and other deductions	89,011,917	589,378	195,151	89,796,446
Change in net assets	10,151,159	11,978,666	23,668,578	45,798,403
Net assets (deficit) at beginning of year	(19,072,101)	175,571,158	344,355,588	500,854,645
Net assets (deficit) at end of year	$ (8,920,942)	$ 187,549,824	$ 368,024,166	$ 546,653,048

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	$ 497,758	$ 55,016,420	$ 15,280,597	$ 70,794,775
Donated services	198,766	-	-	198,766
University fee	11,971,542	24,975	-	11,996,517
UC Health Foundation Fee	2,105,297	-	-	2,105,297
Assessment fee	11,206,249	-	-	11,206,249
Change in value of split interest agreements	(4,617)	151,815	377,148	524,346
Other income	319,788	675,393	238,037	1,233,218
Investment income:				
Dividend and interest income	338,720	6,928,905	54,739	7,322,364
Net unrealized and realized gains	9,418,738	19,656,560	2,867,007	31,942,305
Pledge loss	-	-	(1,699,765)	(1,699,765)
Net assets released from restrictions - satisfaction of donor restrictions	53,892,824	(53,892,824)	-	-
Total revenues and other additions	89,945,065	28,561,244	17,117,763	135,624,072
Expenses and other deductions:				
Distributions to University of Cincinnati	50,471,635	-	-	50,471,635
Operating expenses	25,433,764	-	-	25,433,764
Assessment fee	5,073,849	-	-	5,073,849
Total expenses	80,979,248	-	-	80,979,248
Change in present value of annuities payable	-	468,823	(11,388)	457,435
Total expenses and other deductions	80,979,248	468,823	(11,388)	81,436,683
Change in net assets before acquisition income	8,965,817	28,092,421	17,129,151	54,187,389
Excess of fair value of net assets over consideration in acquisition of the acquired entity	1,985,222	231,154	2,931	2,219,307
Change in net assets	10,951,039	28,323,575	17,132,082	56,406,696
Net assets (deficit) at beginning of year	(30,023,140)	147,247,583	327,223,506	444,447,949
Net assets (deficit) at end of year	$ (19,072,101)	$ 175,571,158	$ 344,355,588	$ 500,854,645

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

THE UNIVERSITY OF CINCINNATI FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
Operating activities:		
Payments to the University of Cincinnati	$ (60,328,851)	$ (50,460,168)
University fees, assessment fees and other	26,447,510	21,857,027
Cash paid for compensation	(17,207,209)	(16,976,997)
Cash received for gifts	40,386,492	39,712,359
Investment income available for distribution	7,469,090	6,517,432
Cash paid for operating expenses	(5,904,446)	(6,337,725)
Net cash used in operating activities	(9,137,414)	(5,688,072)
Investing activities:		
Proceeds from sale of investments	29,391,096	24,482,923
Purchase of investments	(47,364,814)	(48,729,975)
Purchase of property and equipment	(184,817)	(550,358)
Addition of Alumni Assets	-	2,219,307
Net cash used in investing activities	(18,158,535)	(22,578,103)
Financing activities:		
Proceeds from contributions to endowment and similar funds	27,810,723	22,441,839
Investment income restricted for reinvestment	877,234	695,080
Net cash provided by financing activities	28,687,957	23,136,919
Net increase (decrease) in cash and cash equivalents	1,392,008	(5,129,256)
Cash and cash equivalents, beginning of year	10,349,843	15,479,099
Cash and cash equivalents, end of year	$ 11,741,851	$ 10,349,843
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	$ 45,798,403	$ 54,187,389
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for losses on pledges receivable	1,852,798	1,384,616
Depreciation and amortization	1,034,774	1,434,349
(Gain) loss on disposal of property and equipment	(555)	4,035
(Increase) decrease in due from University of Cincinnati	(25,331)	1,183,692
Decrease (increase) in due from UC Health Foundation	147,917	(512,713)
Increase in accrued interest receivable	(184,899)	(109,852)
Decrease (increase) in stock proceeds receivable	282,270	(213,392)
Increase in prepaid expenses	(38,322)	(159,449)
Increase in pledges receivable	(5,633,016)	(5,940,931)
Gifts to trusts held by others	(2,563,026)	-
Decrease (increase) in cash surrender value of life insurance policies	691,080	(62,496)
Increase in other assets	(124,913)	(82,765)
(Decrease) increase in accounts payable	(272,972)	78,827
(Decrease) increase in accrued liabilities	(399,137)	27,593
Increase in accrued compensated absences	20,815	62,547
Decrease in agency payable	(2,240,459)	(1,950,460)
(Decrease) increase in deferred support	(22,261)	232,573
Increase in trusts held for the benefit of others	343,923	87,262
Increase in refundable deposits	1,757	47,567
Increase in accrued interest income due to investment pool	125,619	59,876
Increase in present value of annuities payable	204,384	157,230
Contributions to endowment and similar funds	(25,247,697)	(22,441,839)
Change in value of split interest agreements	(874,315)	(524,346)
Investment income restricted for reinvestment	(877,234)	(695,080)
Net unrealized and realized gains	(21,137,017)	(31,942,305)
Net cash used in operating activities	$ (9,137,414)	$ (5,688,072)

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

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 to 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 financial statements of the Foundation are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Resources for various purposes are classified into net assets classes that are in accordance with activities or objectives specified by donors.

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time, and the portion of perpetual endowment funds subject to a time restriction under an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors. In 2018, the Foundation released approximately $64,126,000 in restricted assets ($12,156,000 for operations, maintenance, plant, $32,383,000 for college programs, $2,885,000 for instruction, $787,000 for auxiliary, $8,467,000 for scholarship, $2,356,000 for academic support, $3,696,000 for research and $1,396,000 for other). In 2017, the Foundation released approximately $53,893,000 in restricted assets ($7,478,000 for operations, maintenance, plant, $26,162,000 for college programs, $3,405,000 for instruction, $835,000 for auxiliary, $7,189,000 for scholarship, $2,325,000 for academic support, $4,333,000 for research and $2,166,000 for other).

Contributions received by the Foundation for the benefit of the University are classified as University contributions on the Statements of Activities. Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Basis of Presentation (continued)

decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restriction from temporarily restricted net assets to unrestricted net assets. The Foundation recognizes temporarily restricted contributions and investment income in which donor-imposed restrictions are met within the same period as temporarily restricted net assets and then reclassifies the revenue to unrestricted net assets through net assets released from restriction on the accompanying Statements of Activities. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Occasionally, the Foundation receives modifications or clarifications to gift agreements or pledges made in previous years. These modifications and clarifications are reviewed by Foundation management for approval, and once approved, may result in a reclassification among net asset classes or a pledge loss if the donor specifies a beneficiary other than the Foundation or the University. No such modifications or clarifications occurred during the years ended June 30, 2018 or 2017.

Gains and losses on investments are reported as increase or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Unconditional promises to give of $10,000 or more, and more than one year old, are evaluated annually for collectability. An appropriate reserve for each pledge is established based on the evaluation. Pledges of this size are not written off without senior management approval. Unconditional promises to give of less than $10,000, expected to be satisfied by multiple payments, are generally completely reserved once twelve months have elapsed from receipt of the last pledge payment. These pledges are written off once the development officer assigned to the donor believes that further collection efforts will not be successful. Finally, unconditional promises to give arising from Telefund and other annual giving programs are generally written off to 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 Statements of Activities as a change in present value of annuities payable.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Cash Equivalents

   Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2018 and 2017, approximately $12,643,000 and $11,996,000 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 B) 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, and five years for software. 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 $10,340,000 and $12,581,000 at June 30, 2018 and 2017, respectively.

7. Income Taxes

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

   The Foundation evaluates its uncertain tax positions as to whether it is more likely than not a tax position could be sustained in the event of an audit by the applicable taxing authority. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. The amount

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Income Taxes (continued)

recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Open tax years for the Foundation include 2017, 2016 and 2015. As of June 30, 2018 and 2017, the Foundation has no assets or liabilities recorded related to uncertain tax positions.

8. Use of Estimates

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

9. Risks and Uncertainties

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

10. Fair Value Measurements

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

11. Functional Reporting of Expenses

The Foundation was created to provide support to the University. Therefore, program services consist of distributions to University of Cincinnati in the accompanying Statement of Activities. Support services consist of the Foundation's operating expenses, which primarily relate to development and fundraising activities, as well as the assessment fee charged against funds held by the Foundation which is part of general and administrative expenses. See also Note P.

12. Operating Expenses

All activities directly related to the ongoing operations of the Foundation are classified as operating expenses on the statement of activities; all other activities are classified as non-operating expense on the statement of activities, which includes Distributions to University of Cincinnati, assessment fee (Note P), and change in present value of annuities (Note O).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Basis of Consolidation
All significant intercompany transactions and balances have been eliminated in consolidation.

14. New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Foundation's primary revenue sources are not expected to be significantly impacted by the standard; however, a complete review of all revenue sources has not yet been completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement. The new guidance will be effective for the Foundation's year ending June 30, 2020.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending June 30, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The ASU will increase short and long-term assets and liabilities upon adoption. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The Foundation is currently evaluating the impact of the standard and will present the two classes of net assets, add the liquidity footnote, expense matrix, and related disclosures. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. New Accounting Standards (continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

NOTE C – TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
College programs	$ 124,348,494	$ 105,291,232
Capital projects	16,983,808	25,838,511
Scholarships	22,539,960	20,426,890
Instruction	6,594,662	6,352,386
Academic support	3,934,825	4,559,117
Research	3,630,863	4,247,313
Annuity and life income funds	3,239,200	3,481,853
Auxiliary	2,611,979	1,851,765
Other	3,666,033	3,522,091
Total temporarily restricted net assets	$ 187,549,824	$ 175,571,158

Endowment funds included in temporarily restricted net assets are $112,948,796 and $101,463,551 as of June 30, 2018 and 2017, respectively.

NOTE D – PERMANENTLY RESTRICTED NET ASSETS

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

	2018	2017
College programs	$ 159,951,436	$ 154,982,908
Scholarships	93,732,521	83,164,892
Academic support	35,812,918	32,485,597
Instruction	36,266,343	32,433,738
Research	26,869,176	26,367,445
Auxiliary	7,857,402	7,650,275
Annuity and life income funds	2,442,300	2,666,655
Other	5,092,070	4,604,078
Total permanently restricted net assets	$ 368,024,166	$ 344,355,588

Endowment funds included in permanently restricted net assets are $332,176,743 and $311,745,795 as of June 30, 2018 and 2017, respectively.

NOTE E – PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately $111,529,000 and $108,634,000 as of June 30, 2018 and 2017, respectively. For payments that extend beyond one year, these pledges receivable have been discounted at rates ranging from 0.8% to 6.0% to a net present value of approximately $101,797,000 and $99,007,000 as of June 30, 2018 and 2017, respectively.

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

	2018	2017
Less than one year	$ 31,116,950	$ 29,100,702
One to five years	44,153,660	45,552,418
More than five years	36,258,490	33,980,463
	111,529,100	108,633,583
Less discount to present value	(9,732,500)	(9,626,201)
Less allowance for uncollectible pledges	(3,317,000)	(4,308,000)
	$ 98,479,600	$ 94,699,382

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, 2018 and 2017 are approximately $16,747,000 and $18,263,000 respectively. The irrevocable bequests are included in

NOTE E – PLEDGES RECEIVABLE (continued)

the total amount of unconditional pledges due and fall within the due in more than five years category. The allowance for uncollectible pledges includes approximately $38,000 and $36,000 associated with the irrevocable bequests, as of June 30, 2018 and 2017, respectively.

As of June 30, 2018, eighteen donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2018, the conditions were not substantially met, therefore, the net present value of the pledges is not included in the carrying amount of pledges receivable. The net present value of the conditional pledges approximated $8,039,000 as of June 30, 2018. There were sixteen donors with outstanding conditional pledges as of June 30, 2017. The net present value of the conditional pledges at June 30, 2017 was approximately $7,553,000.

NOTE F – ENDOWMENT FUNDS

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

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

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

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

NOTE F – ENDOWMENT FUNDS (continued)

There are 1,178 and 1,115 endowment funds, at June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the fair value of these funds collectively was $28,198,651 and $32,008,350 less than the original gift amounts, respectively.

The Foundation has adopted a spending rate policy that limits the distribution of endowment income. The spending rate in fiscal years 2018 and 2017 was 4.5% of the moving average market value for the twelve-quarter period ended each December. Earnings above the spend rate limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2018 and 2017, income earned in the investment pool was less than the amount allocated for expenditure by approximately $11,250,000 and $11,561,000, respectively. This shortfall was funded by cumulative capital gains in the investment pool for the years ended June 30, 2018 and 2017.

The endowment net asset composition by type of fund as of June 30, 2018, was as follows:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ (28,198,651)	$ 112,948,796	$ 332,176,743	$ 416,926,888
Board designated endowment funds	3,870,333	-	-	3,870,333
Total	$ (24,328,318)	$ 112,948,796	$ 332,176,743	$ 420,797,221

The change in endowment fund net assets for the year ended June 30, 2018, is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets (deficit), beginning of year	$ (28,141,641)	$ 101,463,551	$ 311,745,795	$ 385,067,705
Investment income:				
Interest and dividend income	248,447	7,863,403	4,734	8,116,584
Net realized/unrealized gain	3,809,790	5,860,043	-	9,669,833
Total investment income	4,058,237	13,723,446	4,734	17,786,417
Contributions and other transfers	-	6,144,398	19,103,299	25,247,697
Appropriation of endowment assets for expenditure	(248,447)	(8,985,980)	(313,054)	(9,547,481)
Other changes:	-	-	-	-
Other income	-	100,000	1,188,915	1,288,915
Income reinvestment	3,533	503,381	447,054	953,968
Endowment net assets (deficit), end of year	$ (24,328,318)	$ 112,948,796	$ 332,176,743	$ 420,797,221

NOTE F – ENDOWMENT FUNDS (continued)

The endowment net asset composition by type of fund as of June 30, 2017, was as follows:

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ (32,008,350)	$ 101,463,551	$ 311,745,795	$ 381,200,996
Board designated endowment funds	3,866,709	-	-	3,866,709
Total	$ (28,141,641)	$ 101,463,551	$ 311,745,795	$ 385,067,705

The change in endowment fund net assets for the year ended June 30, 2017, is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets (deficit), beginning of year	$ (37,694,169)	$ 84,285,458	$ 295,855,901	$ 342,447,190
Investment income (loss):				
Interest and dividend income	259,285	6,796,649	4,948	7,060,882
Net realized/unrealized loss	9,548,116	8,625,691	-	18,173,807
Total investment income (loss)	9,807,401	15,422,340	4,948	25,234,689
Contributions and other transfers	-	7,733,186	14,708,653	22,441,839
Appropriation of endowment assets for expenditure	(259,285)	(6,838,931)	(48,023)	(7,146,239)
Other changes:				
Other income	-	525,977	806,404	1,332,381
Income reinvestment	4,412	335,521	417,912	757,845
Endowment net assets (deficit), end of year	$ (28,141,641)	$ 101,463,551	$ 311,745,795	$ 385,067,705

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

NOTE G – INVESTMENTS

The Foundation combines its pooled investment securities with the investment pool of the University in order to maximize investment diversification and realize economies of scale with respect to costs of managing the investments. The Foundation continues to serve as trustee for these assets. The Foundation maintains individual records of each fund included in the transfer of assets to the investment pool of the University. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each 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 in approximately 2040 as the last distributions are made from NDCLs. As of June 30, 2018 and 2017, the University is holding approximately $2,531,000 and $8,927,000, respectively, that is to be invested in the University pooled investments. These amounts are recorded as other investments in the Statements of Financial Position.

The Foundation also manages other investments, which amounted to approximately $51,675,000 and $51,263,000 as of June 30, 2018 and 2017, 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, 2018 and 2017:

	2018 Fair Value	2018 Cost	2017 Fair Value	2017 Cost
Cash equivalents	$ 4,042,282	$ 4,042,282	$ 10,753,057	$ 10,753,057
U.S. Government and agency obligations	4,985,414	5,013,393	4,209,417	4,171,133
Corporate bonds	9,101,832	9,341,812	9,172,872	9,285,420
Mutual funds	23,129,110	19,921,509	23,523,168	20,386,225
Common stocks	12,322,247	9,685,234	11,691,018	9,251,173
Real estate	350,000	625,000	840,000	840,000
University pooled investments	385,327,055	396,788,502	342,520,697	361,333,575
Total	$ 439,257,940	$ 445,417,732	$ 402,710,229	$ 416,020,583

The number of units in Fund A owned by the Foundation totaled 4,711,002 and 4,250,044 , which represents 39% and 37% share of the Fund A pool, as of June 30, 2018 and 2017 respectively. Fund A holds primarily common stock, mutual funds, and corporate and government fixed income obligations, which are stated at fair value as determined by market prices. In addition, the Foundation owned 3,968,064 and 3,870,700 shares which represents 36% and 35% share of the C pool, as of June 30, 2018 and 2017 respectively. 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-

NOTE G – INVESTMENTS (continued)

profit entities for development. Certain investments in the University pooled investments are stated at fair value, as provided by the investment managers. Audited financial statements of the underlying investments in the University pooled investments as of June 30, 2018 and 2017, 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, 2018 and 2017. The Foundation believes that the carrying value of these investments is a reasonable estimate of fair value at June 30, 2018 and 2017. Certain underlying investments in the University pooled investments are not readily marketable; therefore, the estimated values of these investments are subject to certain risks. As a result, the fair value of the University pooled investments could differ from the value that may have been determined had a market for certain investments in the University investment pool existed.

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

	2018	2017
Fund A		
U.S. and international equity securities	50%	45%
Hedge funds and private equity capital	31	34
Fixed income securities	13	14
Fund C		
Real estate and community development	6	7
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, mutual funds, and certain corporate bonds. Financial instruments measured at fair value using inputs based on quoted market prices for similar instruments in active markets (or level 2 inputs) include certain common stock,

NOTE H – FAIR VALUE MEASUREMENTS (continued)

U.S. Government and agency obligations and certain 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 is unavailable, pricing models, matrix pricing, or discounted cash flows using inputs such as weighted-average coupon rate, weighted-average maturity, and consideration of credit ratings. Financial instruments measured at fair value using inputs based on quoted prices for identical assets in inactive markets (or level 2 inputs) include certain equity investments in privately-held corporations. The Foundation also invests in the University pooled investments which are stated at fair value using primarily the net asset value of the underlying investments. For those investments in the pool where pricing information is not available as of the measurement date, the fair value is determined based on information as of an interim date, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by the Foundation's management. These fair value instruments are measured at fair value on a recurring basis using significant unobservable inputs (or level 3 inputs).

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

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the Statement of Financial Position at June 30, 2018:

	Balance at June 30, 2018	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
Assets				
Investments:		(Level 1)	(Level 2)	(Level 3)
Common stock:				
Consumer	$ 2,835,998	$ 2,835,998	$ -	$ -
Health care	1,805,726	1,805,726	-	-
Financial	2,709,886	2,709,886	-	-
Technology	1,792,424	1,792,424	-	-
Materials	395,460	395,460	-	-
Energy	930,657	930,657	-	-
Industrial	1,212,679	1,212,679	-	-
Utilities	226,501	226,501	-	-
Telecommunication	265,583	265,583	-	-
Other	147,333	64,833	-	82,500
Total common stocks	12,322,247	12,239,747	-	82,500
Mutual funds:				
Fixed	8,242,185	8,242,185	-	-
Value	3,209,244	3,209,244	-	-
Growth	1,291,873	1,291,873	-	-
Index	517,881	517,881	-	-
Blended	9,250,889	9,250,889	-	-
Other	617,038	617,038	-	-
Total mutual funds	23,129,110	23,129,110	-	-
Corporate bonds	9,101,832	-	9,101,832	-
U.S. Government and agency obligations	4,985,414	-	4,985,414	-
University pooled investments	385,327,055	-	-	385,327,055
Real estate	350,000	-	-	350,000
Total investments at fair value	$ 435,215,658	$ 35,368,857	$ 14,087,246	$ 385,759,555
Trusts held by others	$ 13,594,955	$ -	$ -	$ 13,594,955
Liabilities				
Trusts held for the benefit of others	$ 1,799,437	$ -	$ -	$ 1,799,437

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the Statement of Financial Position at June 30, 2017:

	Balance at June 30, 2017	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
Assets				
Investments:		(Level 1)	(Level 2)	(Level 3)
Common stock:				
Consumer	$ 2,690,471	$ 2,690,471	$ -	$ -
Health care	1,793,315	1,793,315	-	-
Financial	2,669,127	2,669,127	-	-
Technology	1,433,657	1,433,657	-	-
Materials	55,406	55,406	-	-
Energy	777,874	777,874	-	-
Industrial	1,500,197	1,500,197	-	-
Utilities	2,536	2,536	-	-
Telecommunication	553,725	553,725	-	-
Other	214,710	132,210	-	82,500
Total common stocks	11,691,018	11,608,518	-	82,500
Mutual funds:				
Fixed	8,299,651	8,299,651	-	-
Value	3,754,818	3,754,818	-	-
Growth	1,284,502	1,284,502	-	-
Index	1,017,955	1,017,955	-	-
Blended	8,719,392	8,719,392	-	-
Other	446,850	446,850	-	-
Total mutual funds	23,523,168	23,523,168	-	-
Corporate bonds	9,172,872	-	9,172,872	-
U.S. Government and agency obligations	4,209,417	-	4,209,417	-
University pooled investments	342,520,697	-	-	342,520,697
Real estate	840,000	-	-	840,000
Total investments at fair value	$ 391,957,172	$ 35,131,686	$ 13,382,289	$ 343,443,197
Trusts held by others	$ 10,157,614	$ -	$ -	$ 10,157,614
Liabilities				
Trusts held for the benefit of others	$ 1,455,514	$ -	$ -	$ 1,455,514

NOTE H – FAIR VALUE MEASUREMENTS (continued)

The Foundation's investments in cash equivalents are carried at amortized cost. These investments do not qualify as securities as defined in FASB ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by US GAAP are not provided. Cash equivalents at June 30, 2018 and 2017, are $4,042,282 and $10,753,057 and are included in other investments on the accompanying June 30, 2018 Statement of Financial Position.

Realized and unrealized gains (losses) related to these fair value instruments total $21,137,017 and $31,942,305 as of June 30, 2018 and 2017, respectively, and are included in net unrealized and realized gains (losses) in the accompanying Statements of Activities, except for those fair value instruments where the Foundation is not the beneficiary.

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2018, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others	Real Estate
Beginning balance	$ 342,520,697	$ 10,157,614	$ 1,455,514	$ 840,000
Purchases/contributions	34,589,549	2,563,026	312,958	2,200,000
Interest and dividend income	3,962,526	-	69,814	-
Reinvested income	821,027	-	-	-
Liquidations/sales	(16,020,574)	-	(69,814)	(1,645,000)
Net realized and unrealized gains/(losses)	19,453,830	874,315	30,965	(1,045,000)
Ending balance	$ 385,327,055	$ 13,594,955	$ 1,799,437	$ 350,000

A reconciliation of the balance of level 3 financial instruments for the year ended June 30, 2017, is as follows:

	University pooled investments	Trusts held by others	Trusts held for the benefit of others	Real Estate
Beginning balance	$ 298,660,384	$ 9,633,268	$ 1,368,252	$ 215,000
Purchases/contributions	26,081,395	-	1,015	1,144,000
Interest and dividend income	2,454,388	-	64,678	-
Reinvested income	906,769	-	-	-
Liquidations	(14,144,710)	-	(65,667)	(455,000)
Net realized and unrealized gains/losses	28,562,471	524,346	87,236	(64,000)
Ending balance	$ 342,520,697	$ 10,157,614	$ 1,455,514	$ 840,000

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Gains and losses for these Level 3 fair value instruments are included in net unrealized and realized gains (losses) in the accompanying 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, 2018 and 2017 is $19,558,145 and $29,022,817, 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 of March 31, 2018 or 2017, as applicable. NDC loans are stated at the principal amount plus accrued interest less an allowance for loan losses. As of June 30, 2018 and 2017, approximately 51% and 49%, 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 loan loss reserve are as follows:

Valuation technique	Unobservable inputs	Range
Expected future cash flows	Future occupancy rates	84% - 100%
	Future operating expenses (as a percentage of total revenue)	30% - 61%

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.

On an annual basis, the Foundation estimates the fair value of its beneficial interest in trusts held by other trustees. Management obtains trust statements as of the balance sheet date, and calculates the fair value of their beneficial interest based on expected investment returns, and the life expectancies of any other income beneficiaries, discounted at a 6% interest rate. The following table represents the Foundation's valuation technique, significant unobservable inputs, and ranges of values of those inputs for trusts held by others which are $13,594,955 and $10,157,614 at June 30, 2018 and 2017, respectively.

Valuation technique	Unobservable inputs	Range
Discounted cash flows	Projected investment income	0% – 8%
	Life expectancy of beneficiaries	2 - 50 years
	Discount rate	6%

NOTE H – FAIR VALUE MEASUREMENTS (continued)

Trusts held for the benefit of others are included as a liability on the accompanying June 30, 2018 and 2017 Statements of Financial Position. The trusts are stated at fair value, which is an equal and offsetting amount to the trusts' underlying investments which are included in University pooled investments at fair value on the accompanying June 30, 2018 and 2017 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:

	2018	2017
Office equipment	$ 804,849	$ 798,879
Software	4,910,411	4,899,686
Automobile	74,101	53,504
Computer equipment	258,131	320,491
Work in process	95,095	-
	6,142,587	6,072,560
Less accumulated depreciation and amortization	(3,924,125)	(3,037,463)
	$ 2,218,462	$ 3,035,097

Amortization expense related to computer software was approximately $892,000 and $888,000 for the years ended June 30, 2018 and 2017, respectively, and is included in operating expenses in the accompanying Statement of Activities.

NOTE J – LEASES

Rental expense for operating leases was $239,470 for 2018 and 2017. The Foundation leases certain office space directly from the University. The lease expires on September 30, 2024, and is renewable for two additional terms of 20 years each.

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

2019	$ 239,470
2020	239,470
2021	239,470
2022	239,470
2023	239,470
Thereafter	299,340
Total minimum lease payments	$ 1,496,690

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 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, 2018 and 2017. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, is $3,643,376 and $4,412,074 as of June 30, 2018 and 2017, respectively.

NOTE L – BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

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

Beneficial interest in trusts held by other trustees amounted to approximately $13,595,000 and $10,158,000 as of June 30, 2018 and 2017, respectively.

NOTE M – UNIVERSITY FEE

In accordance with an agreement with the University, operating support of $ 12,729,984 and $10,768,326 was provided by the University during the years ended June 30, 2018 and 2017, respectively. The Foundation also receives interest income earned on unexpended gift fund balances held at the University and reimbursement from certain colleges of the University for salaries and fringe benefits paid to college development employees. For the years ended June 30, 2018 and 2017, interest income and salary and benefits were $1,349,951 and $1,228,191, 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 year ended June 30, 2018. The value of donated occupancy costs is estimated to be $192,654 each year, and is included in university fee with an equal and offsetting amount recorded in operating expenses on the accompanying 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% and 1.25%, respectively, in 2018 and 2017. Revenue to the Foundation from the fee was approximately $7,465,000 and $8,962,000 in 2018 and 2017, respectively, and is used to fund Foundation operations. Approximately $2,942,000 and $3,290,000 of this fee was recorded from funds held by the Foundation in 2018 and 2017, respectively.

NOTE N – ASSESSMENT FEE (continued)

The Foundation charges an endowment administrative fee to recover gift stewardship costs incurred by the Foundation for those endowments which are not charged the general endowment assessment fee. The endowment administrative rate was 5% in 2018 and 2017, of the spending policy distribution made to the endowment spending account. Revenue to the Foundation from the fee was approximately $355,000 and $391,000 in 2018 and 2017, respectively. Approximately $94,000 and $104,000 of this fee was recorded from funds held by the Foundation in 2018 and 2017, respectively.

The Foundation charges a fee to be assessed upon all spendable, cash gifts made to the University, the Foundation or the UC Health Foundation. The gift administrative rate was 5% for gifts less than five million and 2% for gift commitments of five million and greater in 2018 and 2017, upon the receipt of cash to gift, plant and loan funds. Revenue to the Foundation from the fee was approximately $1,978,000 and $1,853,000 in 2018 and 2017, respectively. Approximately $1,719,000 and $1,679,000 of this fee was recorded from funds received by the Foundation in 2018 and 2017, respectively.

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 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 our 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 present value of annuities payable on the accompanying Statement of Activities. The assets and liabilities of these funds as of June 30 are:

	2018	2017
Annuities		
Investments, at fair value	$ 3,244,401	$ 3,376,525
Less present value of annuities payable	(1,487,082)	(1,606,882)
	$ 1,757,319	$ 1,769,643

	2018	2017
Trusts		
Investments, at fair value	$ 10,779,801	$ 10,891,065
Less present value of annuities payable	(5,336,541)	(5,012,357)
	$ 5,443,260	$ 5,878,708

NOTE O – ANNUITY AND LIFE INCOME FUNDS (continued)

For the year ended June 30, 2018, the Foundation received contributions of approximately $143,000 and $174,000 for annuities and trusts, respectively. For the year ended June 30, 2017, the Foundation received contributions of approximately $1,119,000 and $22,000 for annuities and trusts, respectively.

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

NOTE 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 $929,000 and $877,000 for the years ended June 30, 2018 and 2017, respectively.

The Foundation also maintains a Section 457(f) 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, 2018 and 2017.

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 2018 and 2017, the Foundation incurred $2,016,038 and $2,105,297, respectively in expenses and recognized corresponding revenue under the terms of the agreement. These expenses and revenues are reported in operating expenses and fees in the accompanying Statement of Activities.

Certain board members of the Foundation made contributions of $2,107,071 and $3,161,380 during fiscal year 2018 and 2017, respectively. In addition, certain board members are employees of organizations which provide services to the Foundation. Total fees paid to these organizations were $189,725 and $186,411 for the years ended June 30, 2018 and 2017, 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, 2018 financial statements for subsequent events through September 19, 2018, the date the financial statements were available to be issued. No subsequent events were identified other than the following. In August 2018, the Foundation, through single member LLC, UCF Holdings, LLC, purchased certain property contiguous to the University of Cincinnati Clifton campus for $5,250,000. Simultaneous with this purchase, UCF Holdings, LLC entered into a ground lease and agreement with the University for a period of time until UCF Holdings, LLC conveys the property to the University at its request.

SUPPLEMENTAL SCHEDULES

THE UNIVERSITY OF CINCINNATI FOUNDATION

SUPPLEMENTAL SCHEDULE OF DETAIL OF OPERATING EXPENSES

Years ended June 30, 2018 and 2017

	Foundation Operations	College/ University Expenses	Total 2018	Total 2017
Salaries and wages	$ 12,922,138	$ -	$ 12,922,138	$ 13,029,784
Fringe benefits	3,916,650	-	3,916,650	4,047,828
Professional services	1,480,098	16,408	1,496,506	2,141,657
Promotional materials and events	1,195,771	25,797	1,221,568	1,230,276
Depreciation and amortization	1,034,774	-	1,034,774	1,434,349
Computer and word processing	834,092	-	834,092	619,872
Telephone and postage	411,169	-	411,169	423,667
Travel	240,553	-	240,553	304,485
Building lease	239,472	-	239,472	239,472
Direct marketing	230,551	-	230,551	221,952
Business meetings	223,890	-	223,890	323,348
Donated office space	192,654	-	192,654	271,743
Miscellaneous	101,737	23,783	125,520	110,041
Cultivation	118,847	-	118,847	167,032
Cleaning	111,192	-	111,192	115,376
Utilities, repairs and maintenance	72,102	-	72,102	77,773
Supplies	65,054	-	65,054	50,267
Subsidies to Alumni constituents	55,000	-	55,000	45,250
Insurance	51,156	-	51,156	44,466
Parking	47,493	-	47,493	53,463
Membership dues	41,195	-	41,195	89,457
Development and recruiting	39,736	-	39,736	293,461
Gift annuity reserve	20,714	-	20,714	23,152
Resource materials	18,434	-	18,434	41,861
Copying charges	2,643	-	2,643	33,732
	$ 23,667,115	$ 65,988	$ 23,733,103	$ 25,433,764

THE UNIVERSITY OF CINCINNATI FOUNDATION

SUPPLEMENTAL SCHEDULE OF ACTIVITIES - UNRESTRICTED NET ASSETS (DEFICIT)

Year ended June 30, 2018

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions	$ 331,596	$ 207,220	$ 538,816
Donated services	-	114,271	114,271
University fee	-	17,989,646	17,989,646
UC Health Foundation fee	-	2,016,038	2,016,038
Assessment fee	-	9,817,699	9,817,699
Change in value of split interest agreements	34,404	-	34,404
Other income	577	356,749	357,326
Investment income:			
Dividend and interest income	247,180	84,226	331,406
Net unrealized and realized gains	3,828,869	8,590	3,837,459
Net assets released from restrictions - satisfaction of donor restrictions	64,126,011	-	64,126,011
Total revenues and other additions	68,568,637	30,594,439	99,163,076
Expenses and other deductions:			
Distributions to the University of Cincinnati	60,522,872	-	60,522,872
Operating expenses	65,988	23,667,115	23,733,103
Assessment fee	4,755,942	-	4,755,942
Total expenses and other deductions	65,344,802	23,667,115	89,011,917
Change in net assets	3,223,835	6,927,324	10,151,159
Net assets (deficit), beginning of year	(26,177,567)	7,105,466	(19,072,101)
Net assets (deficit), end of year	$ (22,953,732)	$ 14,032,790	$ (8,920,942)

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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 statement of financial position as of June 30, 2018 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated September 19, 2018.

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) to determine the 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

September 19, 2018

UNIVERSITY OF CINCINNATI FOUNDATION

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 16, 2018

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