

THE UNIVERSITY OF CINCINNATI FOUNDATION AND THE
ENDOWMENT FUND ASSOCIATION

Combined Financial Statements and Supplementary Schedules

June 30, 2003 and 2002 with Report of Independent Auditors



**Auditor of State
Betty Montgomery**

Board of Trustees
University of Cincinnati Foundation and
The Endowment Fund Association
P.O. Box 19970
Cincinnati, Ohio 45219-0970

We have reviewed the Independent Auditor's Report of the University of Cincinnati Foundation and The Endowment Fund Association, Hamilton County, prepared by Ernst & Young LLP, for the audit period July 1, 2002 to June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 15, 2003

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The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Financial Statements and Supplementary Schedules

June 30, 2003 and 2002

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Report of Independent Auditors

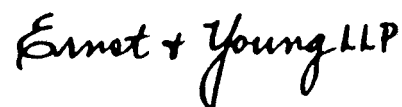
The Board of Trustees
The University of Cincinnati Foundation
and
The Endowment Fund Association

We have audited the combined statements of financial position of The University of Cincinnati Foundation (the Foundation) and The Endowment Fund Association (the Association) as of June 30, 2003 and 2002, and the related combined statements of activities, and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation and Association's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and Association as of June 30, 2003 and 2002, and the statements of activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2003 on our consideration of the Foundation and Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



August 21, 2003

The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Statements of Financial Position

	June 30	
	2003	2002
Assets		
Cash	\$ 4,330,792	\$ 6,145,570
Due from University of Cincinnati	2,294,554	1,431,219
Accrued interest receivable	667,734	359,494
Stock proceeds receivable	13,134	61,205
Prepaid expenses	133,736	102,236
Pledges receivable, net of allowance (Note 5)	46,036,234	36,143,532
Cash surrender value of life insurance policies (Note 6)	828,993	688,991
Other	19,272	2,600
Investments, at fair value (Note 7):		
Cash equivalents	6,235,791	8,461,261
Mutual funds	61,971,638	55,942,545
Corporate stocks	50,956,852	67,854,726
U.S. Government and agency obligations	6,764,372	4,413,543
Corporate bonds	14,422,924	8,357,203
Municipal obligations	185,035	225,831
Other investments	10,592,966	-
Total investments	<u>151,129,578</u>	145,255,109
Investment property, net of accumulated depreciation of \$888,000 in 2003 and \$829,000 in 2002	345,285	777,457
Property and equipment:		
Leasehold improvements, net of accumulated amortization of \$180,000 in 2003 and \$127,000 in 2002	325,616	375,364
Equipment and automobile, net of accumulated depreciation of \$1,231,000 in 2003 and \$1,079,000 in 2002 (Note 8)	716,779	896,877
Total assets	<u>\$ 206,841,707</u>	<u>\$ 192,239,654</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 846,274	\$ 1,072,196
Accrued liabilities	160,506	43,002
Accrued compensated absences	232,184	179,349
Agency payable (Note 2)	783,878	580,452
Refundable deposits	645,864	690,793
Due to University of Cincinnati (Note 10)	359,667	479,557
Present value of annuities payable (Note 14)	7,847,339	9,581,236
Total liabilities	<u>10,875,712</u>	12,626,585
Net assets:		
Unrestricted	6,529,332	12,061,803
Temporarily restricted (Note 3)	69,046,959	59,086,872
Permanently restricted (Note 4)	120,389,704	108,464,394
Total net assets	<u>195,965,995</u>	179,613,069
Total liabilities and net assets	<u>\$ 206,841,707</u>	<u>\$ 192,239,654</u>

See accompanying notes to combined financial statements.

The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Statement of Activities

Year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions:				
University	\$ 724,220	\$ 27,754,329	\$ 9,055,257	\$ 37,533,806
Foundation	-	27,096	-	27,096
University fee (Note 11)	274,476	57,417	-	331,893
Assessment fee (Note 12)	8,032,523	-	-	8,032,523
Other income	15,462	858,023	40,903	914,388
Investment income:				
Dividend and interest income	931,709	3,375,613	125,444	4,432,766
Net unrealized and realized losses	(840,109)	(537,323)	-	(1,377,432)
Reclassification of contributions pursuant to donor stipulation	(4,575,430)	2,544,772	2,030,658	-
Net assets released from restrictions:				
Satisfaction of donor restrictions	24,156,051	(24,156,051)	-	-
Total revenues and other additions	<u>28,718,902</u>	<u>9,923,876</u>	<u>11,252,262</u>	<u>49,895,040</u>
Expenses and other deductions:				
Distributed to or for the University of Cincinnati	23,664,035	-	-	23,664,035
Operating expenses	9,269,729	-	-	9,269,729
Assessment fee (Note 12)	1,317,609	-	-	1,317,609
Total expenses	<u>34,251,373</u>	<u>-</u>	<u>-</u>	<u>34,251,373</u>
Change in present value of annuities payable	-	(36,211)	(673,048)	(709,259)
Total expenses and other deductions (additions)	<u>34,251,373</u>	<u>(36,211)</u>	<u>(673,048)</u>	<u>33,542,114</u>
Change in net assets	(5,532,471)	9,960,087	11,925,310	16,352,926
Net assets, beginning of year	12,061,803	59,086,872	108,464,394	179,613,069
Net assets, end of year	<u>\$ 6,529,332</u>	<u>\$ 69,046,959</u>	<u>\$ 120,389,704</u>	<u>\$ 195,965,995</u>

See accompanying notes to combined financial statements.

The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Statement of Activities

Year ended June 30, 2002

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

See accompanying notes to combined financial statements.

The University of Cincinnati Foundation and
The Endowment Fund Association

Combined Statements of Cash Flows

	Year ended June 30	
	2003	2002
Cash flows from operating activities:		
Payments to or for the University of Cincinnati	\$ (23,947,445)	\$ (25,416,256)
University fees, assessment fees and other	7,049,687	7,031,507
Cash paid for compensation	(5,749,798)	(5,133,858)
Cash received for gifts	16,727,342	17,183,405
Investment income available for distribution	4,092,618	3,622,227
Cash received from sales and services	-	126,846
Cash paid for operating expenses	(2,148,101)	(2,169,805)
Net cash provided by (used in) operating activities	(3,975,697)	(4,755,934)
Cash flows from investing activities:		
Proceeds from sale of investments	118,499,675	131,780,996
Purchase of investments	(127,603,646)	(141,390,991)
Purchase of property and equipment	(47,742)	(218,548)
Net cash used in investing activities	(9,151,713)	(9,828,543)
Cash flows from financing activities:		
Proceeds from contributions to endowment and similar funds	9,055,257	16,580,222
Payments on capital lease obligation	-	(26,278)
Investment income restricted for reinvestment	31,905	48,646
Net cash provided by financing activities	9,087,162	16,602,590
Net (decrease) increase in cash and cash equivalents	(4,040,248)	2,018,113
Cash and cash equivalents, beginning of year	14,606,831	12,588,718
Cash and cash equivalents, end of year	\$ 10,566,583	\$ 14,606,831
Reconciliation of change in net assets to net cash provided by (used by) operating activities:		
Increase in net assets	\$ 16,352,926	\$ 5,828,595
Adjustments to reconcile increase in net assets to net cash provided by (used by) operating activities:		
Provision for losses on pledges receivable	927,528	2,779,410
Depreciation and amortization	336,360	351,359
Increase in due from University of Cincinnati	(863,335)	(33,854)
Increase in accrued interest receivable	(308,240)	(26,709)
Decrease in stock proceeds receivable	48,071	5,167
Increase in prepaid expenses	(31,500)	(2,961)
(Increase) decrease in pledges receivable	(10,820,230)	2,468,314
(Increase) decrease in cash surrender value of life insurance policies	(140,002)	801,870
(Increase) decrease in other assets	(16,672)	12,377
(Decrease) increase in accounts payable	(225,922)	510,069
Increase (decrease) in accrued liabilities	117,504	(109,904)
Increase (decrease) in accrued compensation absences	52,835	(11,691)
Increase (decrease) in agency payable	203,426	(18,230,837)
Decrease in refundable deposits	(44,929)	(102,342)
Decrease in due to University of Cincinnati	(119,890)	(119,889)
(Decrease) increase in present value of annuities payable	(1,733,897)	472,094
Contributions to endowment and similar funds	(9,055,257)	(16,580,222)
Investment income restricted for reinvestment	(31,905)	(48,646)
Net loss on investments	1,377,432	17,281,866
Net cash provided by (used by) operating activities	\$ (3,975,697)	\$ (4,755,934)

See accompanying notes to combined financial statements.

The University of Cincinnati Foundation and The Endowment Fund Association

Notes to Combined Financial Statements

June 30, 2003 and 2002

1. Organization

The University of Cincinnati Foundation (the Foundation) is a not-for-profit organization that operates exclusively for the benefit of the University of Cincinnati (the University). Its principal function is to solicit, receive, hold, invest and administer funds and to make distributions to or for the benefit of the University. The Endowment Fund Association (the Association) was established in 1898 as the University's first endowment fund. Association funds consist of endowments that were granted to the University of Cincinnati between 1898 and the early 1970's. The primary purpose of the Association is to generate income from endowment funds held to be used to support various programs at the University according to donor restrictions.

2. Summary of Significant Accounting Policies

Combination

The accompanying combined financial statements include the accounts of the Foundation and the Association, which is affiliated with the Foundation through a common Board of Trustees.

Basis of Presentation

The combined financial statements of the Foundation and Association, which are presented on the accrual basis of accounting, have been prepared to focus on the organizations as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. The Foundation and Association maintain their financial accounts in accordance with the principles and practices of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

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

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and Association and/or the passage of time.

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

Contributions received by the Foundation and the Association for the benefit of the University are classified as University contributions on the combined statement of activities. Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restriction from temporarily restricted net assets to unrestricted net assets. If a donor requests a change in purpose or time period for use of funds, the change is recorded as a reclassification of contributions pursuant to donor stipulations on the combined statements of activities. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. The Ohio Uniform Management of Institutional Funds Act (the Act) specifies that the governing board of an institution may appropriate for expenditure for the uses and purposes for which an endowment fund is established, up to 100% of the net realized and unrealized appreciation in the fair value of the assets of the endowment fund over the historic value of the fund. Accordingly, 100% of the amount of realized and unrealized appreciation of true endowment funds is classified as unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Contributions in the form of charitable gift annuities are recognized as revenue at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the donors. Payments made to donors reduce the annuity liability. Adjustments to the annuity liability to reflect changes in the life expectancy of the donor are recognized in the statement of activities as a change in present value of annuities payable.

Plough Foundation

Beginning in fiscal 1982, the Foundation transferred an amount of unrestricted money to the University to match an annual donation from the Plough Foundation to support scholarships in the College of Pharmacy. The final transfer was made in fiscal 1992. The terms of this agreement call for the transfers to be returned to the Foundation, over a ten-year period, beginning in fiscal 1998.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Plough Foundation (continued)

The amount of unrestricted funds, which would return to the Foundation, was \$191,258 and \$217,680 as of June 30, 2003 and 2002, respectively. The Foundation has recorded these amounts as an account receivable from the University as of June 30, 2003 and 2002, respectively.

Cash and Cash Equivalents

Cash equivalents consist principally of overnight funds, money market securities and certificates of deposit. As of June 30, 2003 and 2002, \$8,985,765 and \$12,475,868, respectively, of cash and cash equivalents are in excess of Federally insured limits.

Investment Securities

Investment securities are carried at fair value based on quoted market prices. The related cost of these investments as of June 30, 2003 and 2002 was approximately \$158,437,000 and \$157,998,000, respectively.

Investment Property

Investment property is recorded at fair market value at the date of the gift. Depreciation, recorded on the straight-line basis over the estimated useful life of the assets, is recorded on those properties that the Foundation intends to operate as rental properties.

Property and Equipment

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

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 other third party organizations is recorded as a payable of \$783,878 and \$580,452 at June 30, 2003 and 2002, respectively.

Income Taxes

The Foundation and the Association are not-for-profit organizations as defined under Section 501(c)(3) of the Internal Revenue Code and, as such, are exempt from Federal income taxes.

Use of Estimates

Management has made estimates in preparing the combined financial statements based on currently available information that affect certain of the amounts reflected in the combined financial statements. Actual results could differ from those estimates.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

3. Temporarily Restricted Net Assets

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

	<u>2003</u>	<u>2002</u>
Unexpended contributions for restricted purposes	\$ 37,561,763	\$ 36,437,097
Pledges receivable	27,386,133	19,019,723
Annuity and life income funds	4,099,063	3,630,052
Total temporarily restricted net assets	<u>\$ 69,046,959</u>	<u>\$ 59,086,872</u>

4. Permanently Restricted Net Assets

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

	<u>2003</u>	<u>2002</u>
Endowment funds	\$ 100,678,509	\$ 90,168,127
Pledges receivable	17,110,980	15,994,467
Annuity and life income funds	2,600,215	2,301,800
Total permanently restricted net assets	<u>\$ 120,389,704</u>	<u>\$ 108,464,394</u>

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

5. Pledges Receivable

Contributors to the Foundation and the Association have made unconditional pledges totaling \$68,313,724 and \$51,853,756 as of June 30, 2003 and 2002, respectively. These pledges receivable have been discounted at a rate of 6.00% to a net present value of \$47,515,234 and \$38,002,532 as of June 30, 2003 and 2002, respectively, which represents fair market value. As of June 30, these pledges are due as follows:

	2003	2002
Less than one year	\$ 13,800,219	\$ 16,433,883
One to five years	17,326,879	13,380,565
More than five years	16,388,136	8,188,084
Subtotal	47,515,234	38,002,532
Less allowance for uncollectible pledges	1,479,000	1,859,000
Total	\$ 46,036,234	\$ 36,143,532

Amounts due from irrevocable bequests and other trustee assets as of June 30, 2003 and 2002 of \$12,683,000 and \$6,969,000, respectively, are included in the total amount of unconditional pledges due in more than five years

6. Life Insurance Policies

The Foundation is the beneficiary of certain life insurance policies that are recorded at their cash surrender value in the combined financial statements. The cash surrender value represents the amount the Foundation, as beneficiary, would realize if such policies were surrendered as of June 30, 2003 and 2002. The face value of these policies, which would be paid only upon death of the insured and maturity of the contracts, approximated \$5,980,000 and \$5,588,000 as of June 30, 2003 and 2002, respectively.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

7. Investments

In July 2002, the Foundation and Association combined their pooled investment securities with the investment pool of the University of Cincinnati. This action was taken to maximize investment diversification and realize economies of scale with respect to costs of managing the investments. The Foundation and Association continue to serve as trustee for these assets. The Foundation and Association maintain individual records of each fund included in the transfer of assets to the investment pool of the University. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each quarter. Income is allocated to each fund in the pool based on units of participation. The value of the pooled investments approximated \$105,924,000 and \$99,534,000 as of June 30, 2003 and 2002, respectively.

The Foundation and Association have adopted a spending rate policy that limits the distribution of endowment income earned in the investment pool to 5% of the moving average market value for the twelve-quarter period ended each December. Earnings above this limit are reinvested in the endowment fund for the purposes of promoting endowment fund growth. During 2003 and 2002, income earned in the investment pool was less than the amount allocated for expenditure by approximately \$4,664,000 and \$4,087,000, respectively. This shortfall was funded by capital gains in the investment pool for the years ended June 30, 2003 and 2002.

The Foundation also manages other investments, which amounted to approximately \$45,206,000 and \$45,721,000 as of June 30, 2003 and 2002, respectively. These funds represent separately invested endowments, temporary cash investments, and split-interest trusts where the Foundation is the remainderman.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

8. Equipment and Automobile

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

	2003	2002
Office equipment	\$ 603,001	\$ 601,659
Software	848,033	846,458
Automobile	17,980	17,980
Computer equipment	478,345	509,783
	1,947,359	1,975,880
Less accumulated depreciation	1,230,580	1,079,003
	\$ 716,779	\$ 896,877

9. Leases

Rental expense for operating leases during 2003 and 2002 was approximately \$254,000 in each year.

The Foundation and the Association lease certain office space directly from the University of Cincinnati. Rental expense recognized in the combined statement of activities was \$239,472 for both the year ended June 30, 2003 and the year ended June 30, 2002.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

9. Leases (continued)

Future minimum lease payments under noncancelable operating leases (with initial or remaining terms in excess of one year) as of June 30, 2003 are:

	Operating Leases
2004	\$ 253,870
2005	253,870
2006	245,470
2007	239,470
2008	239,470
Thereafter	3,891,390
Total minimum lease payments	<u>\$ 5,123,540</u>

10. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

The carrying amounts of cash and cash equivalents, receivables (other than pledges receivable), prepaid expenses, cash surrender value of life insurance policies, accounts payable, accrued liabilities and accrued compensated absences approximate fair value because of the short maturity of these instruments.

The fair values of investments are estimated based on quoted market prices for those investments.

The carrying amounts of pledges receivable and annuities payable approximate fair value of these amounts, which are anticipated to be collected and distributed in cash, respectively, are recorded at the net present value of such amounts.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

10. Fair Value of Financial Instruments (continued)

The Foundation is obligated to repay the University of Cincinnati for the cost of equipment and improvements associated with the move of the Foundation's office in 2000. As of June 30, 2003 and 2002, the recorded amount of the non-interest bearing obligation is \$359,667 and \$479,557, respectively, and is payable in equal annual payments of \$119,889 with the final payment due in July 2006. As of June 30, 2003 and 2002, the fair value of the obligation is \$339,693 and \$416,452, respectively, which is the present value of expected future cash payments discounted at 6.00%.

11. University Fee

In accordance with an agreement with the University, the Foundation receives interest income earned on unexpended gift fund balances held at the University. The Foundation also receives reimbursement from certain colleges of the University for salaries and fringe benefits paid to college development employees below the director level.

In fiscal 2002, in addition to the items listed above, the Foundation received \$751,000 from University general funds as partial compensation for the provision of fund raising services and gift accounting and processing services. This arrangement was permitted to expire as of June 30, 2002 as part of the planned transition to primarily fund the Foundation's operations via an assessment on certain endowment funds (see Note 12).

12. Assessment Fee

The Foundation is primarily funded by a fee assessed on certain endowment funds held by the University, the Foundation and the Association. Funds that are eligible for the fee assessment include quasi-endowment funds, funds that are broadly restricted by college or department, funds whereby the donor has given permission to assess the fee, and unrestricted funds that do not have an internal designation. The gross assessment rate for fiscal years 2003 and 2002 was 1.5%. Revenue to the Foundation and Association from the fee was approximately \$8,033,000 and \$5,235,000 in fiscal years 2003 and 2002, respectively, and is used to fund the Foundation operations. Approximately, \$1,318,000 and \$900,000 of this fee was recorded from funds held by the Foundation and Association in 2003 and 2002, respectively.

The University of Cincinnati Foundation and
The Endowment Fund Association

Notes to Financial Statements (continued)

13. Retirement Plan

The Foundation participates in a retirement plan (TIAA/CREF) covering employees who meet length of service requirements. Under this arrangement, the Foundation and plan participants make annual contributions to purchase individual annuities equivalent to retirement benefits earned. The Foundation's share of the cost of these benefits was approximately \$367,000 and \$322,000 in 2003 and 2002, respectively.

14. Annuity and Life Income Funds

The Foundation actively markets annuities and life income agreements as part of the development program. These agreements include gift annuities and split-interest trusts where the income beneficiaries receive an income stream for their lifetimes, or a fixed number of years, and the Foundation is the remainderman. The assets and liabilities of these funds as of June 30 are:


	2003	2002
Annuities		
Investments, at fair value	\$ 1,363,392	\$ 1,333,789
Less present value of annuities payable	1,073,321	1,068,144
	\$ 290,071	\$ 265,645

	2003	2002
Trusts		
Investments, at fair value	\$ 14,873,002	\$ 15,760,970
Less present value of amounts payable from trusts	6,774,018	8,513,092
	\$ 8,098,984	\$ 7,247,878

Report of Independent Auditors on Other Financial Information

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

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



August 21, 2003

The University of Cincinnati Foundation and
The Endowment Fund Association

Combining Schedule - Statement of Financial Position

June 30, 2003

	The University of Cincinnati Foundation	The Endowment Fund Association	Combined
Assets			
Cash	\$ 4,330,792	\$ -	\$ 4,330,792
Due from University of Cincinnati	2,294,554	-	2,294,554
Accrued interest receivable	585,900	81,834	667,734
Stock proceeds receivable	13,134	-	13,134
Prepaid expenses	133,736	-	133,736
Pledges receivable, net of allowance	46,036,234	-	46,036,234
Cash surrender value of life insurance policies	828,993	-	828,993
Other	19,272	-	19,272
Investments, at fair value	124,933,037	26,196,541	151,129,578
Investment property, net	345,285	-	345,285
Property and equipment:			
Leasehold improvements, net	325,616	-	325,616
Equipment and automobile, net	716,779	-	716,779
Total assets	<u>\$ 180,563,332</u>	<u>\$ 26,278,375</u>	<u>\$ 206,841,707</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 764,439	\$ 81,835	\$ 846,274
Accrued liabilities	160,506	-	160,506
Accrued compensated absences	232,184	-	232,184
Agency payable	783,878	-	783,878
Refundable deposits	645,864	-	645,864
Due to University of Cincinnati	359,667	-	359,667
Present value of annuities payable	7,847,339	-	7,847,339
Total liabilities	10,793,877	81,835	10,875,712
Net assets:			
Unrestricted	6,529,332	-	6,529,332
Temporarily restricted	69,046,959	-	69,046,959
Permanently restricted	94,193,164	26,196,540	120,389,704
Total net assets	<u>169,769,455</u>	<u>26,196,540</u>	<u>195,965,995</u>
Total liabilities and net assets	<u>\$ 180,563,332</u>	<u>\$ 26,278,375</u>	<u>\$ 206,841,707</u>

The University of Cincinnati Foundation and
The Endowment Fund Association

Combining Schedule - Statement of Activities

Year ended June 30, 2003

	The University of Cincinnati Foundation	The Endowment Fund Association	Combined
Revenues and other additions:			
Contributions:			
University	\$ 37,524,006	\$ 9,800	\$ 37,533,806
Foundation	27,096	-	27,096
University fee	331,893	-	331,893
Assessment fee	8,032,523	-	8,032,523
Other income	914,388	-	914,388
Investment income:			
Dividend and interest income	3,702,812	729,954	4,432,766
Net unrealized and realized losses	(920,232)	(457,200)	(1,377,432)
Total revenues and other additions	49,612,486	282,554	49,895,040
Expenses and other deductions:			
Distributions to or for the University of Cincinnati	21,703,722	1,960,313	23,664,035
Operating expenses	9,269,729	-	9,269,729
Assessment fee	835,138	482,471	1,317,609
Total expenses	31,808,589	2,442,784	34,251,373
Change in present value of annuities payable	(709,259)	-	(709,259)
Total expenses and other deductions	31,099,330	2,442,784	33,542,114
Change in net assets	18,513,156	(2,160,230)	16,352,926
Net assets, beginning of year	151,256,299	28,356,770	179,613,069
Net assets, end of year	<u>\$ 169,769,455</u>	<u>\$ 26,196,540</u>	<u>\$ 195,965,995</u>

The University of Cincinnati Foundation and
The Endowment Fund Association

Schedule of Combined Operating Expenses

Year ended June 30, 2003 and 2002

	Foundation Operations	College/ University Expenses	Total 2003	Total 2002
Salaries and wages	\$ 4,332,602	\$ 217,251	\$ 4,549,853	\$ 3,880,406
Fringe benefits	1,298,746	71,540	1,370,286	1,131,860
Professional services	245,704	-	245,704	210,783
Provision for losses on pledges receivable	-	927,528	927,528	2,779,410
Promotional materials and events	258,267	-	258,267	309,090
Public relations	46,585	-	46,585	69,902
Direct marketing	126,839	-	126,839	63,390
Depreciation and amortization	277,522	58,838	336,360	351,359
Telephone and postage	246,965	2,888	249,853	248,573
Travel	150,992	-	150,992	109,153
Computer and word processing	113,139	-	113,139	114,531
Building lease	253,871	-	253,871	253,870
Business meetings	137,854	-	137,854	101,023
Resource materials	35,931	-	35,931	35,513
Development and recruiting	189,116	-	189,116	197,682
Copying charges	32,772	-	32,772	29,531
Utilities, repairs and maintenance	41,391	-	41,391	40,395
Cleaning	60,709	-	60,709	57,053
Supplies	41,196	-	41,196	48,836
Insurance	24,783	-	24,783	19,447
Parking	26,473	-	26,473	24,868
Restructuring	-	-	-	70,650
Miscellaneous	50,227	-	50,227	100,789
	\$ 7,991,684	\$ 1,278,045	\$ 9,269,729	\$ 10,248,114

The University of Cincinnati Foundation and
The Endowment Fund Association

Schedule of Activities - Unrestricted Net Assets

Year ended June 30, 2003

	Gifts and Transfers	Foundation Operations	Total
Revenues and other additions:			
Contributions:			
University	\$ 724,220	\$ -	\$ 724,220
University fee	-	274,476	274,476
Assessment fee	-	8,032,523	8,032,523
Other income	12,151	3,311	15,462
Investment income:			
Dividend and interest income	375,931	555,778	931,709
Net unrealized and realized losses	(715,960)	(124,149)	(840,109)
Reclassification of contributions pursuant to donor stipulation	(4,684,000)	108,570	(4,575,430)
Net assets released from restrictions:			
Satisfaction of donor restrictions	24,156,051	-	24,156,051
Total revenues and other additions	<u>19,868,393</u>	<u>8,850,509</u>	<u>28,718,902</u>
Expenses:			
Distributions to or for the University of Cincinnati	23,664,035	-	23,664,035
Operating expenses	1,278,045	7,991,684	9,269,729
Assessment fee	1,317,609	-	1,317,609
Total expenses	<u>26,259,689</u>	<u>7,991,684</u>	<u>34,251,373</u>
Change in net assets	(6,391,296)	858,825	(5,532,471)
Net assets, beginning of year	10,585,248	1,476,555	12,061,803
Net assets, end of year	<u>\$ 4,193,952</u>	<u>\$ 2,335,380</u>	<u>\$ 6,529,332</u>

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Combined Financial Statements in Accordance With *Government Auditing Standards*

The Board of Trustees and The Audit Committee

The University of Cincinnati Foundation
and

The Endowment Fund Association

We have audited the combined financial statements of The University of Cincinnati Foundation and the Endowment Fund Association (the Foundation and Association) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

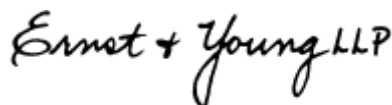
As part of obtaining reasonable assurance about whether the Foundation's and Association's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's and Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, the Audit Committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 21, 2003



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Betty Montgomery**

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UNIVERSITY OF CINCINNATI FOUNDATION AND THE ENDOWMENT FUND

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
DECEMBER 30, 2003**