

University of Cincinnati

A Component Unit of the State of Ohio

Financial Statements
as of and for the
Year Ended
June 30, 2014 and
Independent Auditor's
Report



Thomas H. Humes



Robert E. Richardson, Jr.



Thomas D. Cassidy



C. Francis Barrett



Ronald D. Brown



William C. "Wym" Portman III



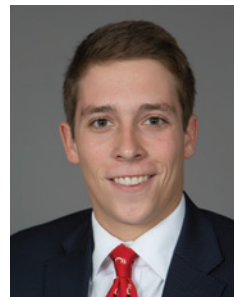
Geraldine B. "Ginger" Warner



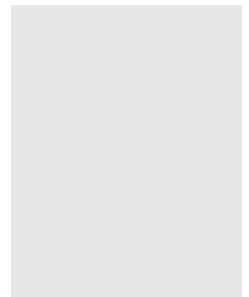
Carl H. Lindner III



Margaret K. Valentine



Benjamin J. Keefe



Debra Burgess

BOARD OF TRUSTEES

Trustees	Term Expires
Thomas H. Humes, <i>Chairperson</i>	2016
Robert E. Richardson, Jr., <i>Vice Chairperson</i>	2017
Thomas D. Cassady, <i>Secretary</i>	2019
C. Francis Barrett	2015
Ronald D. Brown	2018
William C. "Wym" Portman III	2020
Geraldine B. "Ginger" Warner	2021
Carl H. Lindner III	2022
Margaret K. Valentine	2023
Student Trustees	
Benjamin J. Keefe, Undergraduate Student	2015
Debra Burgess, Graduate Student	2016

*Unrestricted net position
increased from \$167 million
to \$203 million, an increase
of \$36 million in 2014.*



20

*The University welcomed the largest
student body in its history
in August 2014 for the fall semester
with a total of 43,691 students.*

14

FINANCIAL STATEMENTS*

CONTENTS

Letter from the President.	2
Letter from the Vice President for Finance	3
Independent Auditor's Report	4
Management's Discussion and Analysis.	7
Statement of Net Position	30
Statement of Revenues, Expenses and Changes in Net Position.	32
Statement of Cash Flows	34
Notes to Financial Statements.	36

*as of and for the year ended June 30, 2014, and independent auditor's report



Letter from the President



Our mission as an institution of higher learning hinges inseparably on our ability to remain fiscally solvent and prudent. Fortunately, the University of Cincinnati has an excellent and hard-working team of experts, professionals and advisors who guide us in maintaining our healthy financial footing. Thanks to these collective efforts and teamwork across our entire university — from students, faculty and staff to alumni, donors and friends — our position remains solid and our ratings from financial industry experts remain stable. Our university stands stronger today because of our collaboration, creativity and commitment.

Another major contributor to our fiscal well-being is our growth in student enrollment. Unlike many colleges and universities across the nation who are experiencing shrinking incoming classes, UC has welcomed increasing numbers of students over the course of the past 10 years. Compared to a decade ago, our student body has swelled by 24 percent — up to 43,691 last fall from 35,244. Applications for next year remain at record levels. Our urban location in a diverse population center of more than 2 million people remains an attractive commodity for students seeking an opportunity to put education to the test in real-world applications.

UC continues to work persistently and diligently to keep costs down for our students. Affordability remains a laser-point of concern and our Efficiency Council is making strides to realize significant cost savings — including more than \$1 million annually through an agreement for volume purchasing of computer hardware, \$1.4 million per year in new healthcare and pharmacy contracts negotiated and \$4 million in energy billing rates.

We will never swerve from our commitment to pursue even greater efficiency and savings through innovation, because we have an obligation to keep college education within the reach of any student who desires it. But we will not cut corners on quality or what our students need to become lifelong learners who thrive and give back locally and globally.

Our vista looks bright as we implement the Creating Our Third Century initiative. We have plans to invest in people — the students, faculty, staff and alumni who make the University of Cincinnati into the outstanding educational and research enterprise that it is. And I look forward to working together as a team to make the future of this institution even more robust and remarkable.

Sincerely,

A handwritten signature in black ink, reading "Santa J. Ono". The signature is fluid and cursive, with the first name "Santa" and last name "Ono" clearly distinguishable.

Santa J. Ono, PhD
University of Cincinnati President

Letter from the Vice President for Finance

As Vice President for Finance, I am pleased to present the 2014 financial report for the University of Cincinnati. As you will see, the university has successfully continued to improve upon its financial stability. Comprehensive cost containment efforts coupled with the dedication of the university's faculty and staff have been instrumental to the university's financial progress and success. Transparency and collaboration with faculty, deans, administrators, and students regarding financial opportunities and challenges has fostered an environment of empowerment and continuous improvement.

The university's total net position increased by \$109 million in 2014. Unrestricted net position increased by \$36 million, a 21.5 percent increase compared to 2013's ending balance. This increase is mainly due to improved student retention, increased enrollment, an increase in state educational appropriations, and sustained targeted financial strategies. As a proactive measure, the university formed an efficiency council that includes a diverse group of staff, administrators, faculty, and students. To date, many one-time and permanent cost savings and cost avoidance initiatives have been achieved. The committee continues to explore potential savings and cost reduction opportunities.

Endowment and gift funds, including both nonexpendable and expendable portions of net position, increased in total by \$45 million. The university's endowment, including investments held by the University's Foundation plus beneficial interests in irrevocable trusts, grew from \$1.046 billion to \$1.184 billion, an increase of \$138 million. To build upon the future growth of the endowment, a reduction in the annual allocation of endowment funds available for spending was implemented in 2014. This new spending policy allowed for annual distributions of 4.75% of the three-year quarterly moving-average market value of endowment pool assets, compared to a 5% distribution in 2013. The reduction in endowment spending was a result of a long-term endowment growth initiative implemented as a conservative measure to provide additional stability to the principal portion of the endowment.

The university's net investment in capital assets increased by \$28 million. Campus planners and communities around the country have recognized the significance of the university's physical campus. While a notable transformation has taken place over the past two decades, the university continues its commitment to provide good stewardship of the physical assets in a systematic and sustainable manner.

The university's continued financial success in 2014 is much to celebrate. Our students have realized a multitude of dreams and fulfilled countless ambitions. Additionally, the global community has benefited in many ways from the institution's research and inventions. As a premier, public, urban research university our role continues to evolve as we prepare for our third century as a leader in higher education.



James D. Plummer
Vice President for Finance



Independent Auditor's Report

Board of Trustees
University of Cincinnati
Cincinnati, Ohio

Report on the Financial Statements

We have audited the accompanying basic financial statements of the University of Cincinnati (University) and its discretely presented component unit, collectively a component unit of the State of Ohio, which are comprised of a statement of net position as of June 30, 2014, and a statement of revenues, expenses and changes in net position and a statement of cash flows for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Cincinnati Foundation, a discretely presented component unit of the University, which statements reflect total assets of \$429,725,000 as of June 30, 2014, and total revenues of \$121,915,000 for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Cincinnati Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Cincinnati and of its discretely presented component unit as of June 30, 2014, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 11, 2013. In our opinion, except for the changes discussed in the following paragraph, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2014 the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which changed its method of accounting for debt issuance costs and the reporting of deferred losses from the refunding of debt to deferred outflows of resources, all of which have been applied retrospectively. Our opinions are not modified with respect to this matter.

Also as discussed in Note 1 to the financial statements, in 2014 the University changed its method of accounting in defining cash and cash equivalents. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Cincinnati, Ohio
October 9, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position of the University of Cincinnati (the "University") as of and for the year ended June 30, 2014, with comparative information as of and for the year ended June 30, 2013. Comments relate to the University and University Heights Community Urban Redevelopment Corporation (UHCURC), a blended component unit of the University. Comments do not pertain to the University's discretely presented component unit, The University of Cincinnati Foundation (the Foundation). The Foundation's financial results are presented in a columnar format with further information found in the notes to the financial statements. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

The University originated in 1819 and was city owned until becoming a state university on July 1, 1977. The University is a comprehensive public institution of higher learning with 43,691 students and 4,500 faculty members on three campuses. Among the University's student population are more than 2,900 international students from 106 different nations. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 14 colleges. University campuses include Uptown Campus, UC Blue Ash, and UC Clermont with student populations of 81%, 12%, and 7%, respectively. **The University, in total, employs approximately 14,000 people, making it one of the largest employers in the Cincinnati region.**

The University operates on a semester calendar, which creates numerous advantages for both the student and the University. Advantages include the student's ability to transfer among other public Ohio universities seamlessly. All public Ohio institutions and 90% of national institutions are on the semester calendar.

The University has been designated by the Ohio Board of Regents as **one of only two comprehensive graduate public universities** in the state. **The National Science Foundation ranks the University as one of the nation's top 25 public research universities.** The University is also classified as a **"Very High Research Activity" university by the Carnegie Foundation** for the Advancement of Teaching, placing the University among 35 research-intensive universities to receive the classification.

THE MOST BEAUTIFUL CAMPUS IN AMERICA

Forbes, Delta Sky,
Travel + Leisure
all agree that
the University of
Cincinnati campus
is among the most
beautiful in the
world. Visitors to
campus walk away
astounded. The
campus speaks to the
quality of education
available here, and
to the outstanding
and diverse campus
community.

*Net investment income
increased from \$85 million in 2013
to \$102 million in 2014,
an increase of \$17 million.*

**A WEALTH OF
STRENGTHS**

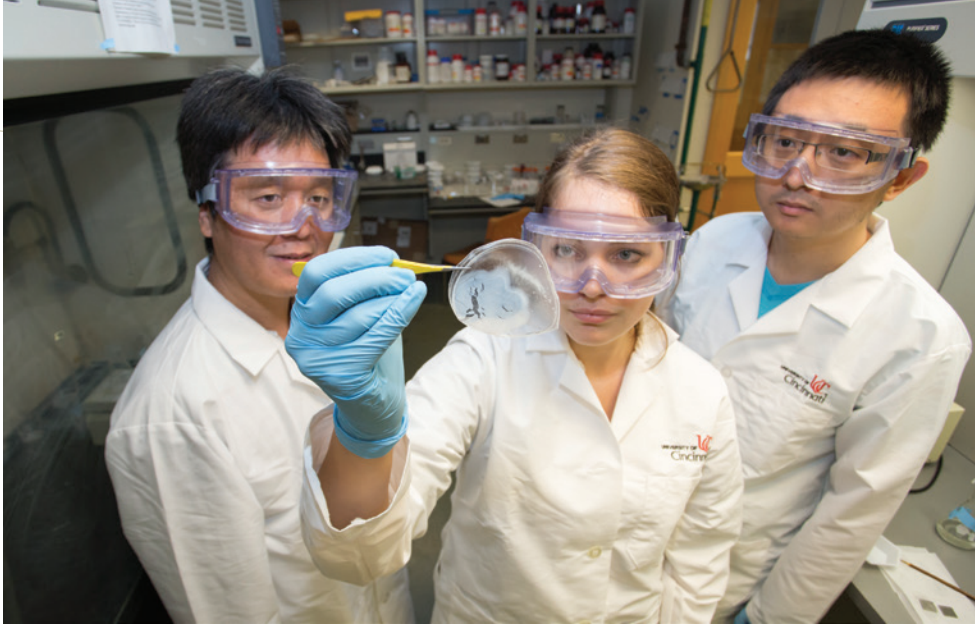
The University of Cincinnati can boast a set of strengths — some of which can be claimed by many universities — but few can claim all that UC can:

- Division I athletics — a major-league city
- A strong research program across multiple disciplines
- Strong academic programs
- A commitment to diversity and inclusion

The U.S. News & World Report rankings named the University again in the top tier of the country's "Best National Universities," a rise of 27 places in the last five years. The new 2015 edition ranked the University at # 129 and continues to cite the University's emphasis on real-world experience. The University's rise in the rankings has been spurred by improved graduation rates, improved retention of first-year students, and increased alumni giving. The University also made the list of the top 13 colleges in a category called "A Focus On Student Success." Students are encouraged to apply and expand upon what they're learning in the classroom by obtaining real-world work experience through internships and cooperative education assignments.

Princeton Review's 2015 edition of "The Best 379 Colleges" identified the University for the eighth year in a row among the nation's best institutions for an undergraduate education. The University is praised by students for being Cincinnati Smart by offering students "a balance of educational excellence and real-world experience." The University was also praised by students for its diversity, a place where students "are open minded and everyone can find a place to fit in." The Princeton Review also named the University for the fifth year in a row, the top tier of the nation's "green" universities.

The Lindner College of Business' MBA program has had the single biggest jump of any MBA program in the 2015 Best Business School rankings by U.S. News & World Report. The program rose a total of 39 spots for its full-time program to # 60 and 69 spots to # 81 for its part-time program. The college was named a "Best Business School" and one of the "Top 100 undergraduate programs" in the nation by Bloomberg Businessweek.



Financial Highlights

For the seventh year in a row, the University's unrestricted net position has increased. Unrestricted net position increased from \$167 million to \$203 million, an increase of \$36 million in 2014. The increase is a result of improved student retention and increased enrollment, an increase in state educational appropriations, and sustained targeted financial strategies.

While many universities are challenged to meet their enrollment targets, the University welcomed the largest student body in its history in August 2014 for the fall semester with a total of 43,691 students. Enrollment compared to the previous fall term increased by 2.4%.

In 2014 and 2013, operating revenues totaled \$770 million and \$782 million, respectively; reflecting a decrease of \$12 million in 2014. While net student tuition and fee revenue increased from \$423 million to \$431 million, an increase of \$8 million, overall operating revenues declined by 1.5% (\$12 million) during 2014. The decrease is mainly due to a \$23 million decline in federal grants and contracts revenue.

Net investment income increased from \$85 million in 2013 to \$102 million in 2014, an increase of \$17 million. The increase was attributable to improved national and global markets along with strategic investment management. Fund A, the University's actively managed investment pool, achieved an annual return of 14.5%.

The University's long-term bond rating was reaffirmed during 2014. In fiscal year 2012, both Moody's and Standard & Poor's increased the University's long-term bond rating. Moody's increased the rating from A1 (positive outlook) to Aa3 (stable outlook). Standard & Poor's increased its rating from A+ (stable outlook) to AA- (stable outlook). The rating increases came after an extensive review of the University's financial activities, strategic plans, and future prospects.

THE REAL WORLD

All universities have history and traditions. None can come close to UC's history and tradition of real-world experience as part of its academic program. Cooperative education got its start at UC more than 100 years ago. Today, with a variety of experiential learning opportunities — including co-op, study abroad and internships throughout the city, country and beyond — the University of Cincinnati offers a top-notch, world-class education with real-world experience.



Using the Financial Statements

The University's financial report includes three financial statements and related notes:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories.

Changes in Accounting Principle

The 2013 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position were restated to accommodate the implementation of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. The new GASB statement was effective for periods beginning after December 15, 2012. See Note 1 for additional information.

The 2013 Statement of Net Position was also restated to report all endowment cash and cash equivalents as noncurrent endowment investments due to the restrictions placed upon these assets. See Note 1 for additional information.

Moody's and Standard & Poor's long-term bond rating was reaffirmed during 2014.



STATEMENT OF NET POSITION

The Statement of Net Position, which reports all assets, liabilities, deferred inflows and deferred outflows of the University, presents the financial position of the University at the end of the fiscal year. The University's net position is the residual value after subtracting liabilities and deferred inflows from the sum of assets and deferred outflows. The University had no deferred inflows for 2014 and 2013. Liabilities due within one year and assets available to pay those liabilities are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value. Capital assets are separated into two lines on the statement: those assets that are depreciated and those that are not depreciated. Items that are depreciated include buildings, equipment, infrastructure, land improvements, and library books. Items that are not depreciated include land, construction in progress, art, and rare book collections. There is no requirement to fund the accumulated depreciation. Instead, capital assets are largely funded by state capital appropriations, issuance of debt, and gifts from various donors. A summary of the University's net financial position at June 30, 2014, and 2013 follows:

Summary Statement of Net Position

(in thousands)	2014	2013 Restated	Increase/(Decrease) Amount	Percent
Current assets	\$405,854	\$237,608	\$168,246	70.8%
Noncurrent assets				
Investments	263,130	264,692	(1,562)	-0.6%
Endowment investments	585,221	538,681	46,540	8.6%
Accounts and notes receivable and other assets	30,024	27,772	2,252	8.1%
Investment in UC Health	420,645	420,645	—	0.0%
Capital assets, net of depreciation	1,484,887	1,466,366	18,521	1.3%
Total assets	3,189,761	2,955,764	233,997	7.9%
Deferred outflows of resources	20,727	21,534	(807)	-3.7%
Current liabilities	290,860	276,764	14,096	5.1%
Noncurrent liabilities	1,200,785	1,091,180	109,605	10.0%
Total liabilities	1,491,645	1,367,944	123,701	9.0%
Net position	\$1,718,843	\$1,609,354	\$109,489	6.8%

The university's endowment totaled \$1.184 billion on June 30, 2014.

Current Assets

Current assets consist primarily of cash and cash equivalents, short-term investment of operating funds and debt proceeds to be used for capital improvements, and accounts and notes receivable. Current assets increased by \$168 million in 2014. The increase in current assets during 2014 was mainly a result of an increase in cash and cash equivalents, and the current portion of investments. The University invests its operating funds and borrowed proceeds to provide, in order of priority, safety of principal, liquidity, and maximum total return consistent with safety and liquidity.

Noncurrent Assets

Investments

Investments (excluding endowment investments) at June 30, 2014, totaled \$263 million, a \$2 million decrease from June 30, 2013. Funds are invested in the University's temporary investment pool which had a weighted average life of 1.21 years at June 30, 2014, a decrease from 1.95 years compared to June 30, 2013. Investments with a maturity date less than one year after June 30, 2014, are classified as current.

Endowment Investments

The University's endowment totaled \$1.184 billion at June 30, 2014. The endowment includes Fund A (actively managed pooled investments), Fund B (certain real estate), separately invested assets, and beneficial interests in irrevocable trusts. On the following page is a summary of the market value for each category of the University's endowment:



(in thousands)	2014	2013 Restated	Amount	Increase Percent
Fund A (University's share)	\$557,347	\$510,453	\$46,894	9.2%
Fund A (Foundation's share)	280,467	232,808	47,659	20.5%
Total Fund A	837,814	743,261	94,553	12.7%
Fund B	831	831	—	0.0%
Separately Invested	52,240	47,570	4,670	9.8%
Beneficial Interests in Irrevocable Trusts	293,037	253,944	39,093	15.4%
Total Endowment Investments	\$1,183,922	\$1,045,606	\$138,316	13.2%

Those amounts in the table above that are reported on the University's Statement of Net Position include the University's share of Fund A (excluding a \$17 million loan to UHCURC and accrued income, dividend receivable and adjustments totaling \$8 million), Fund B, and separately invested funds. These investments total \$585 million. All endowment investments, including cash and cash equivalents are reported as noncurrent endowment investments due to the restrictions placed upon these assets.

Endowment funds consist of both permanent endowments and funds functioning as endowment (quasi-endowments and term endowments). Permanent endowments are funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is expended for a specific purpose. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for the purpose of long-term investment, but are not limited by donor stipulations requiring the University to preserve principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts, and other major programs and activities.

Fund A, the University's principal investment pool, increased in 2014 from \$743 million to \$838 million, an increase of \$95 million (13%). The increase is net of the 4.75% endowment spending distribution plus a 2% fundraising fee allocation provided to the Foundation. Excluding Neighborhood Development Corporation loans of \$55 million (net of \$16 million of principal reserves), Fund A consists of approximately 24% US equities, 23% non US equities, 15% cash and fixed income, 19% absolute return hedge funds, 12% private equity, and 7% real estate.



The University manages the endowment to support current operations in a way that generates a predictable stream of support while maintaining the purchasing power of endowment funds adjusted for inflation. The spending policy provides for annual distributions of 4.75% of the three-year quarterly moving-average market value of assets in the investment pool. The 2014 income distribution for endowment spending was reduced from 5% in 2013. The income distribution for endowment spending for fiscal year 2015 will be 4.5% times the previous twelve-quarter moving average of market value. The determination of market value subsequent to 2014 excludes, for all previous quarters, Neighborhood Development Corporation Loans and local real estate-related assets.

The University is the beneficiary of numerous trusts held and administered by external trustees. The market value of these external trustee assets totaled \$293 million and \$254 million as of June 30, 2014, and June 30, 2013, respectively. These external trusts are irrevocable, and the University has a vested beneficial interest in the net income payable by the trusts. In accordance with GASB, these external trust assets are not reported on the University's Statement of Net Position. Income is received annually and reported on the University's Statement of Revenues, Expenses, and Changes in Net Position. The University received income of \$9.0 million and \$8.2 million in 2014 and 2013, respectively. Income from the trusts will continue to be received in perpetuity.

Endowment investments recorded in the University's column of the financial report exclude both the Foundation's share of Fund A and the University's beneficial interests in irrevocable trusts.

Investment in UC Health

The University's interest in UC Health is valued at \$421 million. The University's value for its investment is based on the cost method of accounting as of July 1, 2011. For further discussion of UC Health, please refer to Note 4, Investment in UC Health.



Capital Assets

The University Campus Master Plan 2000 has driven \$2.2 billion of construction projects that transformed the Uptown Campus into a cohesive community that enhances the student, faculty, and staff experiences through improved teaching and research spaces. This additional space addresses recent enrollment growth the University has been privileged to experience plus provide accommodations for future enrollment growth. During 2014, the University completed and capitalized significant renovation projects including:

- Jefferson Avenue Sports Complex
- Medical Sciences Building Phases 2 and 3
- Morgens Residence Hall
- Muntz Hall
- Primary Electric Substation
- Rhodes Alumni Engineering Learning Center
- Rieveschl Labs Phases 3 and 4

Campus planners and communities around the country have recognized the significance of the University's physical campus. Noted publications such as the Princeton Review along with national press, New York Times, Los Angeles Times, and Forbes Magazine, have noted the strength of the campus plan and the design excellence of the buildings and other structures that shape the plan. Now ranked as one of the top 10 most beautiful campuses, the University is poised to begin its next physical plan.

The University's strategic and academic plans set the stage for the physical plan that addresses stewardship of existing assets through the use of standards and design guides. The need to replace infrastructure in existing academic buildings is the driver of this plan along with the quest for improved energy efficiency and more flexible and radical use of space. Opportunities for changing classroom teaching and learning patterns will create more highly performing buildings that focus on both function and energy use. The strategy is sustainable and responsible given the recent completion of a major building initiative as well as constrained state and local resources available to fund major construction projects.

*Current assets increased by
\$168 million in 2014, mainly a
result of an increase in cash and
cash equivalents, and the current
portion of investments.*

Capital asset additions are funded using a combination of state capital appropriations, debt, gifts, federal grants, and University funds. Capital additions totaled \$129 million in 2014 and \$113 million in 2013. Depreciation expense totaled \$104 million in 2014 and \$101 million in 2013. Capital additions are primarily comprised of capital projects that were either completed during the fiscal year or are in the construction or design phase at June 30 of each fiscal year.

Significant capital projects currently in design, construction or implementation phases include:

- Medical Sciences Building Rehabilitation, Phase 4
- DAAP Facade Improvements
- Rieveschl Hall Lab Renovation Phases 5 & 6
- Nippert Stadium Renovation
- Teachers College/Dyer Rehabilitation Phase 3
- New Student Information System Implementation (PeopleSoft Campus Solutions)

In August 2014, the University's Board of Trustees approved funding for the design of a new building to replace Wherry Hall and funding for the design of a new mid-rise building at the site of the demolished Sawyer residence hall. Additionally, the Board approved funding for renovation of the Health Professions Building, renovation of the Scioto residence hall, and demolition of the obsolete Radiation Safety building.

Planning related to the physical campus is in full support of the University's academic mission. Plans are developed in the context of a comprehensive physical, financial, and academic review. The University utilizes a 10-year capital project compendium to guide the prioritization of future capital projects.



Liabilities

Debt

Total debt representing bonds, notes, capital leases, and certificates of participation was \$1.236 billion at June 30, 2014; an increase of \$108 million from \$1.128 billion at June 30, 2013.

During 2014, the University refunded debt on two occasions to rollover non-permanent debt and to refund fixed rate maturities to reduce future debt service. Total net economic gain to be realized from the refunding activity is \$2.5 million over 18 years (see Note 6 – “Refundings” section).

The University entered into an interest rate swap which became effective May 1, 2009, and is currently associated with Series 2014A Bond Anticipation Notes (BANS). The intent of this derivative instrument is to protect the University against the potential of rising interest rates. The University reevaluated the municipal market and the fair value of the swap in the spring of 2014 and decided to issue new BANS to replace the maturing BANS associated with the swap. This same evaluation process is anticipated to take place in 2015 to determine the optimal refinancing method for the Series 2014A BANS and the outstanding swap. The fair value of the swap at June 30, 2014, was a negative \$3.4 million and is reflected as an interest rate swap liability in the noncurrent liability section of the Statement of Net Position.

The ratings on University debt were maintained by Standard & Poor’s (S&P) and Moody’s during 2014. S&P’s rating on long-term bonds is AA-; the rating on Certificates of Participation (COPS) is A+; and the short-term rating on the notes is SP-1+. S&P’s outlook for the University remained at stable during 2014. Moody’s rating for long-term bonds is Aa3; the rating for the COPS is A1; and the short-term note rating is MIG1. Moody’s outlook for the University remained at stable during 2014.



The University continues to invest in its expansion of research and educational facilities beyond the level provided by state capital appropriations through the issuance of debt. The extensive investment in these facilities is necessary to attract and maintain high quality students, faculty, and research funding in an increasingly competitive environment. The University's future debt financing activity will focus on the Medical Sciences Building rehabilitation, the replacement of Wherry Hall, the renovation of Scioto Hall, upgrades of existing facilities and building systems, and the strategic management of the debt portfolio.

Net Position

The four net position categories represent the residual interest in the University's assets and deferred outflows of resources less liabilities and deferred inflows of resources. The University's net position at June 30, 2014 and 2013 is summarized below.

(in thousands)	2014	2013 Restated	Amount	Increase Percent
Net investment in capital assets	\$431,120	\$403,616	\$27,504	6.8%
Restricted for:				
Nonexpendable:				
Endowment and gifts	351,863	326,344	25,519	7.8%
Investment in UC Health	420,645	420,645	–	0.0%
Expendable:				
Endowment and gifts	308,057	288,720	19,337	6.7%
Other, including debt service, debt proceeds, and capital appropriations	4,506	3,217	1,289	40.1%
Unrestricted	202,652	166,812	35,840	21.5%
Total Net Position	\$1,718,843	\$1,609,354	\$109,489	6.8%



Net investment in capital assets represents both the University's non-depreciable and depreciable assets. Non-depreciable assets include land, construction in progress, art, and rare book collections. Depreciable assets include buildings, equipment, land improvements, and infrastructure. The amount included as invested in capital assets is also net of outstanding principal balances of debt attributable to the acquisition, construction, and improvement of those assets. During fiscal year 2014, net investment in capital assets increased by \$28 million. The change was a result of the addition of \$129 million in capital assets offset by \$104 million in depreciation expense plus a \$3 million reduction in capital asset related debt.

Restricted nonexpendable net position includes, as a primary component, the University's permanently invested endowment and gift funds. These funds increased by \$26 million. Restricted nonexpendable net position also includes the University's investment in UC Health.

Restricted expendable net position is subject to externally imposed provisions governing its use. This category of net position mainly includes restricted quasi-endowment funds, unspent expendable endowment funds (available through the endowment spending policy), and gifts. Restricted quasi-endowment funds totaled \$226 million and \$209 million in 2014 and 2013, respectively. Restricted expendable endowment funds available for spending totaled \$55 million in 2014 and \$58 million in 2013.

Unrestricted net position has improved significantly over the past several years. During 2014, unrestricted net position increased by \$36 million to \$203 million. The increase is a result of improved student retention and increased enrollment, an increase in state educational appropriations, and sustained targeted financial strategies.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of activities for the year. Presented below are summarized statements of the University's revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013.

Summary Statement of Revenues, Expenses and Changes in Net Position

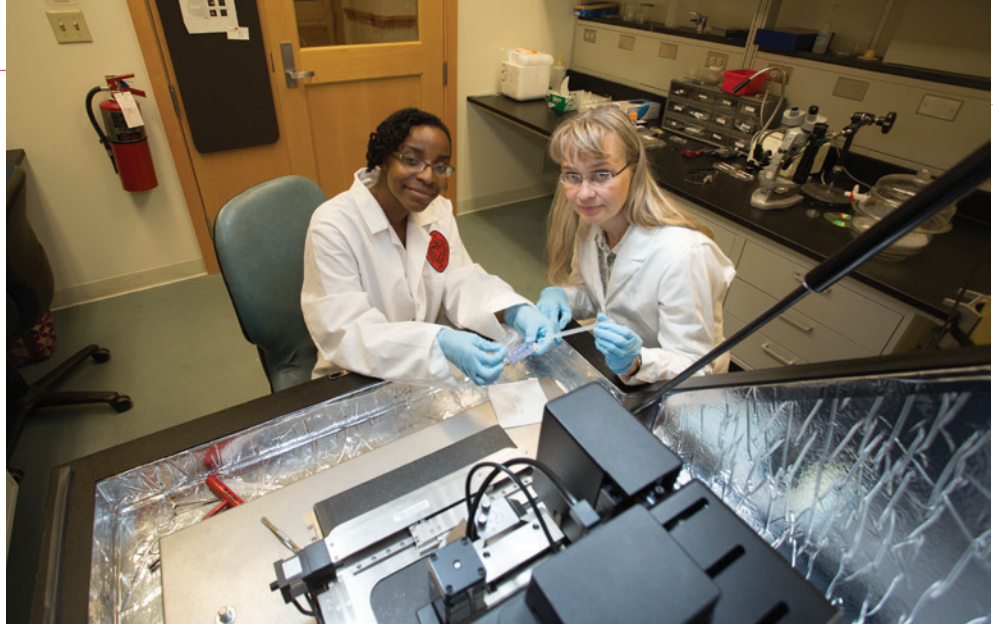
(in thousands)	2014	2013 Restated	Increase/(Decrease) Amount	Percent
Operating Revenues	\$770,008	\$781,980	\$(11,972)	-1.5%
Operating Expenses	1,033,708	1,024,487	9,221	0.9%
Operating Loss	(263,700)	(242,507)	(21,193)	8.7%
Nonoperating Revenues (expenses)				
State educational appropriations	190,826	184,199	6,627	3.6%
Federal and state nonexchange grants	43,774	43,719	55	0.1%
Gifts	50,488	51,968	(1,480)	-2.8%
Net investment income	101,644	84,984	16,660	19.6%
Net interest on capital asset-related debt	(45,369)	(44,334)	(1,035)	2.3%
Other nonoperating revenues (expenses)	(2,744)	2,128	(4,872)	-228.9%
Capital appropriations, gifts, and grants	33,199	29,788	3,411	11.5%
Additions to permanent endowments	1,371	264	1,107	419.3%
Increase in net position	109,489	110,209	(720)	-0.7%
Net position, beginning of year, as previously reported	1,609,354	1,505,162	104,192	6.9%
Net effect of change in accounting principle	–	(6,017)	6,017	-100.0%
Net position, beginning of year, as restated	1,609,354	1,499,145	110,209	7.4%
Net position, end of year	\$1,718,843	\$1,609,354	\$109,489	6.8%



Under GASB standards, revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, federal and state grants (nonexchange), and gifts are considered nonoperating as defined by GASB. Consequently, the operating loss of \$264 million does not account for these important revenue sources. Adding these three revenue sources, which total \$285 million for the fiscal year, offsets the operating loss. This provides a more accurate view of the University's operating results.

While operating revenues decreased and operating expenses increased for a net increase in operating loss of \$21 million, this loss was offset by an increase in nonoperating revenues such as net investment income and state educational appropriations. The overall result was \$1 million decrease in the change in net position when comparing 2014 results of \$109 million to 2013 results of \$110 million.

*During 2014, the University
completed and capitalized
significant renovation projects.*



Revenues

One of the University's greatest strengths is the diverse stream of revenues that supplements its student tuition and fees including voluntary private support from individuals, foundations, and corporations along with government and other sponsored programs; state appropriations; and investment income. The University has aggressively sought, and will continue to seek, funding from all possible sources consistent with its mission to supplement student tuition and will prudently manage the financial resources realized from these efforts to fund its operating activities.

Summary of Revenues

(in thousands)	2014	2013 Restated	Increase/(Decrease) Amount	Percent
Operating Revenues				
Net student tuition and fees	\$431,364	\$422,586	\$8,778	2.1%
Federal, state, & local grants and contracts	134,024	152,392	(18,368)	-12.1%
Nongovernmental grants and contracts	20,788	19,895	893	4.5%
Sales and services of educational departments	66,201	67,116	(915)	-1.4%
Auxiliary enterprises, net	102,005	102,438	(433)	-0.4%
Other	15,626	17,553	(1,927)	-11.0%
Total Operating Revenues	770,008	781,980	(11,972)	-1.5%
Non operating Revenues				
State educational appropriations	190,826	184,199	6,627	3.6%
Federal and state nonexchange grants	43,774	43,719	55	0.1%
Gifts	50,488	51,968	(1,480)	-2.8%
Net investment income	101,644	84,984	16,660	19.6%
Capital appropriations, gifts, and grants	33,199	29,788	3,411	11.5%
Additions to permanent endowments	1,371	264	1,107	419.3%
Total Nonoperating and Other Revenues	421,302	394,922	26,380	6.7%
Total Revenues	\$1,191,310	\$1,176,902	\$14,408	1.2%



Operating Revenues

Student tuition and fees are the primary source of operating revenue for the University. During 2014, the net revenue from student tuition and fees increased from \$423 million to \$431 million, an increase of \$8 million due to improved student retention and an increase in incoming students. The freshman class was the largest in the University's history.

While Governor Kasich's biennial budget allowed up to a 2% increase for in-state undergraduate tuition, the University announced that in-state and non-resident undergraduate tuition would not increase for the 2014 academic year. At the graduate level, tuition also remained unchanged for both resident and non-resident students. For professional students, Law school fees remained unchanged while the Medicine MD program increased by 1%. The PharmD instructional fee and non-resident surcharge increased by 5%.

The University has a high level of commitment to research. Revenue from federal, state, and local grants and contracts was \$134 million and \$152 million in 2014 and 2013, respectively; a decrease of \$18 million in 2014. The decrease in 2014 was due to an overall reduction in federal grant funds available for research. Annual research revenue as a percent of total operating revenue accounted for 17% of revenue in 2014. Strategic plans are in place to increase the University's research opportunities.

Capital additions totaled \$129 million in 2014.

Nonoperating Revenues

State educational appropriations increased from \$184 million in 2013 to \$191 million in 2014, an increase of \$7 million. The State of Ohio's 2014-2015 approved budget appropriations bill included funding reforms for Ohio's public colleges and universities. The changes in the funding methodology reward the University for improving its graduation rates and course completions. Although state appropriations contribute a significantly lower percentage of the overall funding of University operations, particularly compared to tuition, the resources remain a vital source of funding for academic programs and administrative costs.

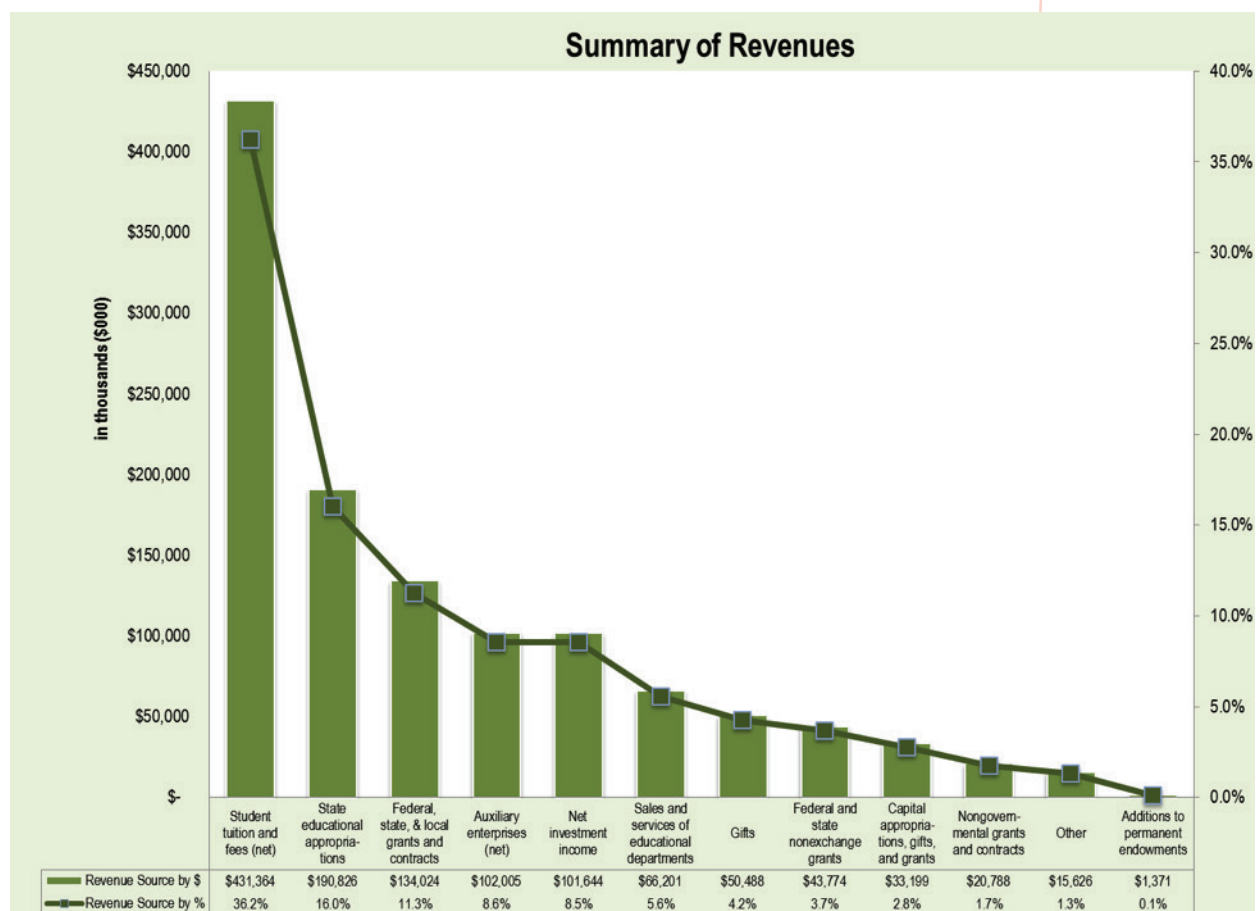
Revenues from federal and state grants (nonexchange) provide for the recovery of direct and indirect costs. Such revenues remained stable at \$44 million in 2014. In a time of heightened competitiveness, especially for federal research funding, the University continues to focus on maintaining its research base.

The results of fundraising efforts have been an important component of financial resources. Expendable gifts to the University received during 2014 totaled \$50 million and \$52 million in 2014 and 2013, respectively. The \$2 million decrease was related to the timing of gifts received from donors. During 2014, the University's Foundation raised a total of \$170 million in private support for the University and surpassed its fundraising goal of \$125 million. The donors have designated gifts as follows: \$8.5 million to support student scholarships and fellowships; \$6.5 million in endowments to fund chairs and professorships; and more than \$88 million to enhance educational programs. The remainder will fund facility improvements such as Nippert Stadium renovations, programmatic support, and research that will further impact the University community.

The University's investment income totaled \$102 million and \$85 million in 2014 and 2013 respectively, an increase of \$17 million. Investment income includes both endowment income and temporary investment pool income. The overall increase in investment income for 2014 is attributable to improved national and global markets along with strategic investment management.



The chart below summarizes by percentage all funding sources including revenues used for operating activities and those classified as nonoperating:



Expenses

The University continues on its quest to contain costs and achieve efficiencies throughout the University while ensuring a focus on students and research.

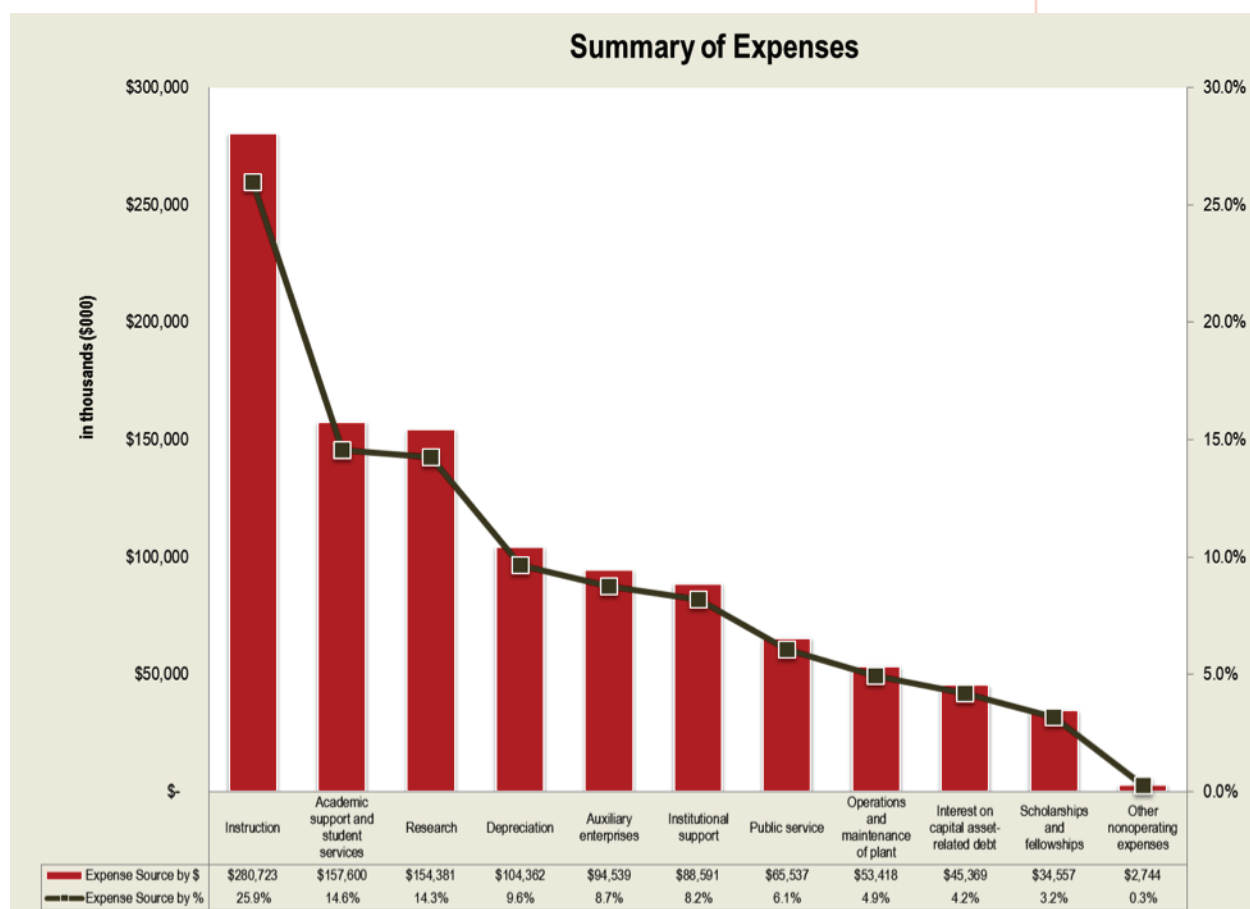
Summary of Expenses

(in thousands)	2014	2013 Restated	Increase/(Decrease) Amount	Percent
Operating Expenses				
Instruction	\$280,723	\$283,151	\$(2,428)	-0.9%
Research	154,381	166,667	(12,286)	-7.4%
Public service	65,537	60,673	4,864	8.0%
Academic support and student services	157,600	148,640	8,960	6.0%
Institutional support	88,591	79,767	8,824	11.1%
Operations and maintenance of plant	53,418	55,073	(1,655)	-3.0%
Scholarships and fellowships	34,557	37,876	(3,319)	-8.8%
Auxiliary enterprises	94,539	91,530	3,009	3.3%
Depreciation	104,362	101,110	3,252	3.2%
Total operating expenses	1,033,708	1,024,487	9,221	0.9%
Nonoperating expenses				
Interest on capital asset-related debt	45,369	44,334	1,035	2.3%
Other nonoperating expenses	2,744	(2,128)	4,872	-228.9%
Total nonoperating expenses	48,113	42,206	5,907	14.0%
Total Expenses	\$1,081,821	\$1,066,693	\$15,128	1.4%



Total University expenses (operating and nonoperating) increased by \$15 million in 2014. The increase was attributable to an increase in various costs mainly related to public service, academic support and student services, and institutional support.

The chart below summarizes percentage of total operating expenses for each expense category:



An increase of \$8 million due to improved student retention and an increase in incoming students.

Economic factors that will affect the future

The University is preparing for both its 200th anniversary in 2019 and its third century. The primary aim is to further define who we are, where we will focus, why we matter, and how each of us can contribute to this forward momentum. In doing so, the University will reaffirm its core mission—of teaching, research, and community engagement—as well as unlock a vision that is uniquely the University of Cincinnati. Preparing for the third century incorporates strategies from numerous active planning documents to align, aggregate, and prioritize initiatives. The vision of the University's institutional priorities for the next 15 years will be defined and propelled by a focused, sustained investment in people—in our faculty, students, staff, and alumni. The University will redeploy existing resources as well as build the next comprehensive fundraising campaign around these priorities.

The University achieved an unprecedented all-time enrollment high in autumn 2014. Total student headcount increased from 42,656 in 2013 to 43,691 in 2014, an increase of 1,035 students. The percentage increase for incoming freshman was even larger at 4.7% for a total of 6,651 first-year students.

Research is an integral component of the University's mission. To ensure the University stays true to that element of its mission, the University actively seeks not only federal and state awards but also private grants. To that end, the University has developed a strong relationship with the University of Cincinnati Research Institute (UCRI), a 501(c)(3) nonprofit organization. UCRI serves to connect University experts to industry partners, facilitate commercialization of research, and enhance cooperative and experiential learning experiences for University students.

Income distribution for endowment spending for 2015 has been reduced from 4.75% to 4.50%. The distribution calculation is based on the previous twelve-quarter moving average of market value. Additionally, both neighborhood development corporation loans and local real estate-related assets have been excluded from the distribution calculation. Reducing the spending policy and modifying the asset base used in the spending policy calculation are important steps to ensure the long-term protection of the endowment corpus and provide ongoing intergenerational equity.

The University will implement Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, for 2015. This statement will require the University to record a pro-rata share of the unfunded pension liabilities for both the STRS Ohio and OPERS defined pension plans which faculty and staff participate. These two statewide retirement systems are considered multiple-employer, cost-sharing pension plans and are included within the scope of this statement. Based on the most recent Comprehensive Annual Financial Reports of STRS Ohio and OPERS, it is expected that the initial recognition of these net pension liabilities will result in substantial deficits in the University's unrestricted net position. Additionally, the recognition of pension expenses (or income) derived from a number of variables will vary significantly from year to year.

This statement was designed by the Governmental Accounting Standards Board with the intention to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments including public universities.

Despite a significant accounting impact on the financial statements related to the implementation of this statement, no economic or financial impact is expected. There have been no changes to the employer contribution funding percentages for both STRS Ohio and OPERS, and the University does not anticipate any additional outlays of resources due to the adoption of this statement.

Statement of Net Position

as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati		The University of Cincinnati Foundation	
	2014	2013 Restated	2014	2013
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$105,516	\$51,459	\$2,969	\$4,827
Current portion of investments	232,180	122,022	–	–
Current portion of accounts receivable, net	49,706	48,822	2,561	1,566
Current portion of pledges receivable, net	–	–	18,178	30,963
Current portion of notes receivable, net	5,157	6,556	–	–
Deposits with bond trustees	4,515	914	–	–
Current portion of other assets	8,780	7,835	10,695	10,134
Total current assets	405,854	237,608	34,403	47,490
NONCURRENT ASSETS				
Investments	263,130	264,692	–	–
Endowment investments	585,221	538,681	335,901	281,409
Accounts receivable, net	5,716	4,199	–	–
Pledges receivable, net	–	–	57,426	37,105
Notes receivable, net	24,308	23,573	–	–
Investment in UC Health	420,645	420,645	–	–
Capital assets not being depreciated	173,815	258,563	–	–
Capital assets being depreciated, net	1,311,072	1,207,803	1,995	510
Total noncurrent assets	2,783,907	2,718,156	395,322	319,024
Total Assets	3,189,761	2,955,764	429,725	366,514
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refunding	20,727	21,534	–	–
Total Deferred Outflows of Resources	20,727	21,534	–	–
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	70,453	49,779	1,951	1,430
Accrued liabilities	30,438	31,645	–	–
Current portion of accrued compensation	70,400	69,614	–	–
Current portion of bonds, notes, and leases payable	78,379	84,555	–	–
Deposits and advances	38,599	35,974	–	–
Funds held on behalf of others	2,591	5,197	–	–
Total current liabilities	290,860	276,764	1,951	1,430

Continued on next page.

Statement of Net Position (continued)
as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati		The University of Cincinnati Foundation	
	2014	2013 Restated	2014	2013
LIABILITIES (continued)				
NONCURRENT LIABILITIES				
Accrued compensation	18,065	18,469	–	–
Government loan advances	21,203	25,853	–	–
Bonds and leases payable	1,158,108	1,043,647	–	–
Interest rate swap liability	3,409	3,211	–	–
Other noncurrent liabilities	–	–	10,152	11,993
Total noncurrent liabilities	1,200,785	1,091,180	10,152	11,993
Total Liabilities	1,491,645	1,367,944	12,103	13,423
Net Position				
Net investment in capital assets	431,120	403,616	1,995	510
Restricted for:				
Nonexpendable:				
Endowment and gifts	351,863	326,344	288,782	272,294
Investment in UC Health	420,645	420,645	–	–
Expendable:				
Endowment and gifts	308,057	288,720	142,841	101,830
Other, including debt service, debt proceeds, and capital appropriations	4,506	3,217	–	–
Unrestricted	202,652	166,812	(15,996)	(21,543)
Total Net Position	\$1,718,843	\$1,609,354	\$417,622	\$353,091

The accompanying Notes to Financial Statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position

as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati		The University of Cincinnati Foundation	
	2014	2013 Restated	2014	2013
OPERATING REVENUES				
Student tuition and fees	\$526,256	\$514,535	–	–
Less scholarship allowances	94,892	91,949	–	–
Net student tuition and fees	431,364	422,586	–	–
Federal grants and contracts	122,631	146,025	–	–
State and local grants and contracts	11,393	6,367	–	–
Nongovernmental grants and contracts	20,788	19,895	–	–
Sales and services of educational departments	66,201	67,116	–	–
Auxiliary enterprises (net of scholarship allowances of \$8,213 in 2014 and \$7,714 in 2013)	102,005	102,438	–	–
Other operating revenues	15,626	17,553	\$14,780	\$11,969
Total Operating Revenues	770,008	781,980	14,780	11,969
OPERATING EXPENSES				
Educational and general				
Instruction	280,723	283,151	–	–
Research	154,381	166,667	–	–
Public service	65,537	60,673	–	–
Academic support	97,771	92,059	–	–
Student services	59,829	56,581	–	–
Institutional support	88,591	79,767	18,511	16,520
Operations and maintenance of plant	53,418	55,073	–	–
Scholarships and fellowships	34,557	37,876	–	–
Auxiliary enterprises	94,539	91,530	–	–
Depreciation	104,362	101,110	153	213
Total Operating Expenses	1,033,708	1,024,487	18,664	16,733
Operating Loss	(263,700)	(242,507)	(3,884)	(4,764)

Continued on next page.

Statement of Revenues, Expenses, and Changes in Net Position (continued)

as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati		The University of Cincinnati Foundation	
	2014	2013 Restated	2014	2013
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	190,826	184,199	—	—
Federal nonexchange grants	40,708	40,698	—	—
State nonexchange grants	3,066	3,021	—	—
Gifts	50,488	51,968	67,649	65,155
Net investment income	101,644	84,984	39,486	25,384
Net interest on capital asset-related debt	(45,369)	(44,334)	—	—
Payments to University of Cincinnati	—	—	(37,244)	(41,006)
Other nonoperating revenues (expenses)	(2,744)	2,128	(1,476)	(169)
Net Nonoperating Revenues	338,619	322,664	68,415	49,364
Income Before Other Revenues	74,919	80,157	64,531	44,600
OTHER REVENUES				
State capital appropriations	23,386	16,337	—	—
Capital gifts and grants	9,813	13,451	—	—
Additions to permanent endowments	1,371	264	—	—
Total Other Revenues	34,570	30,052	—	—
Increase in Net Position	109,489	110,209	64,531	44,600
Net Position, beginning of year, as previously reported	1,609,354	1,505,162	353,091	308,491
Net effect of change in accounting principle (see note 1)	—	(6,017)	—	—
Net Position, beginning of year, as restated	1,609,354	1,499,145	353,091	308,491
Net Position, End of Year	\$1,718,843	\$1,609,354	\$417,622	\$353,091

The accompanying Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows

as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati	
	2014	2013 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$438,270	\$402,641
Federal, state, and local grants and contracts	186,567	210,715
Sales and services of educational departments and auxiliary enterprises	169,672	175,587
Expenditures and other deductions		
Compensation	(634,407)	(626,695)
Payments for materials, services and other	(327,820)	(317,439)
Loans issued	(5,144)	(4,047)
Loan principal collected	5,809	5,811
Interest on loans receivable	137	175
Other revenue	4,950	19,524
Net Cash Used for Operating Activities	(161,966)	(133,728)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	190,507	184,199
Federal nonexchange grants	40,677	40,698
State nonexchange grants	3,066	3,021
Gift receipts for current use	50,058	51,809
Additions to permanent endowments	1,371	264
Net Cash Provided by Noncapital Financing Activities	285,679	279,991
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	25,190	14,378
Private gifts	5,653	5,110
Grants	4,132	7,845
Other	2,747	6,560
Proceeds from issuance of capital debt	225,717	143,964
Purchases of capital assets	(115,194)	(118,498)
Principal paid on capital debt and leases	(111,634)	(195,872)
Interest payments on capital debt and leases	(51,112)	(50,555)
Net Cash Used for Capital and Related Financing Activities	(14,501)	(187,068)

Continued on next page.

Statement of Cash Flows (continued)

as of June 30, 2014 (with comparative information as of June 30, 2013)

(in thousands)	The University of Cincinnati	
	2014	2013 Restated
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments, net	12,728	15,677
Proceeds from sales and maturities of investments	1,690,961	2,166,229
Purchases of investments	(1,756,120)	(2,191,551)
Other endowment expenditures	(2,724)	(1,231)
Net Cash Used for Investing Activities	(55,155)	(10,876)
Net Increase (Decrease) in Cash and Cash Equivalents	54,057	(51,681)
Cash and cash equivalents, beginning of year, as previously reported	51,459	112,016
Net effect of change in accounting principle (see note 1)	–	(8,876)
Cash and cash equivalents, beginning of year, as restated	51,459	103,140
Cash and Cash Equivalents, end of year	\$105,516	\$51,459
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Loss	\$(263,700)	\$(242,507)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense	104,362	101,110
Changes in assets and liabilities		
Accounts receivable, net	(2,208)	1,228
Notes receivable, net	665	(1,763)
Other assets	(1,035)	(290)
Accounts payable	6,742	1,947
Accrued compensation and other	(3,884)	(1,084)
Advances	3,302	(3,122)
Compensated absences	(474)	(3,150)
Deposits	(197)	254
Other liabilities	(5,539)	13,649
Net Cash Used for Operating Activities	\$(161,966)	\$(133,728)
NONCASH TRANSACTIONS		
Accrued liabilities for property, plant and equipment	\$25,212	\$11,753
Gifts of property, plant and equipment	44	661

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies

Organization

The University of Cincinnati (the University) originated in 1819 with the founding of Cincinnati College. In 1977, the University formally became part of the Ohio public university system. As such, it is a component unit of the State of Ohio. Under provisions of the Internal Revenue Code, Section 115, and the applicable income tax regulations of the State of Ohio, the University, as a state institution, is exempt from taxes on income other than unrelated business income. Since the University has no material net unrelated business income during the year ended June 30, 2014, there are no provisions for income taxes.

Under Ohio Revised Code 3361.01, the University of Cincinnati's Board of Trustees is the governing body of the University of Cincinnati. The board is composed of 11 members: nine (9) voting members and two (2) nonvoting student members. All board members are appointed by the Governor of Ohio with the advice and consent of the State Senate. Trustees are appointed to nine-year terms of office, with the exception of student trustees who are appointed to two-year terms.

The Board is responsible for selecting and appointing the president; setting the operating budget; approving personnel appointments; granting all degrees awarded by the University, including honorary degrees; establishing tuition and fee rates; approving contracts; and approving all rules, regulations, curriculum changes, new programs and degrees of the University.

Basis of Presentation

The accompanying financial statements present the accounts of the University and of the following entities:

- University Heights Community Urban Redevelopment Corporation (UHCURC), described more fully in Note 16, is a legally separate not-for-profit organization which owns a residence complex offering housing for University students. UHCURC is reported as a blended component unit of the University in accordance with the provisions of the Governmental Accounting Standards Board (GASB) and is included in the University's Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.
- The University of Cincinnati Foundation (the Foundation), described more fully in Note 17, is a legally separate not-for-profit organization engaged in fundraising activities exclusively for the benefit of the University. The Foundation is a discretely presented component unit of the University in accordance with the provisions of GASB on the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. The University reports as a special purpose government engaged primarily in business type activities (BTA), as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, the University presents Management's Discussion and Analysis, Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

The University's financial resources are classified for accounting and reporting purposes into the following four net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

- Restricted for nonexpendable and expendable purposes:
 - Nonexpendable – The net position subject to externally-imposed restrictions, which must be retained in perpetuity by the University, is classified as nonexpendable net position. Such assets include the University's permanent endowment and the University's investment in UC Health.
 - Expendable – The net position whose use by the University is subject to externally-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. Such assets include the spendable portion of endowment and gifts and other assets including debt service, debt proceeds, and capital appropriations.
- Unrestricted: The remaining net position that is neither the net investment in capital assets or restricted for nonexpendable and expendable purposes. The University's unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all of the unrestricted net position is designated for academic and research programs and initiatives and for capital programs.

Changes in Accounting Principle

During 2014, the University changed its policy related to how cash and cash equivalents are defined for reporting purposes within the endowment and began reporting these items on the Statement of Net Position as noncurrent endowment investments. In previous years these items were reported as cash and cash equivalents. Management believes this reclassification improves the financial statement presentation since these assets are restricted for use and are not immediately available for current operations. Adoption of this change resulted in a reduction of cash and cash equivalents of \$14,292,000 and \$8,876,000 as of June 30, 2013 and July 1, 2012, respectively. There was no change to the net position.

Additionally during 2014, the University also adopted GASB Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in the financial statement presentations. Adoption of this statement resulted in a decrease of \$6,017,000 in net position as of July 1, 2012 and a decrease in expenses of \$219,000 for the year ended June 30, 2013. These changes resulted from the statement's requirement that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from application of the statement are the reclassification of the deferred losses from the refunding of debt to deferred outflows of resources.

Recent Accounting Pronouncements

In March 2012, GASB issued a statement to resolve conflicting guidance related to risk financing activities, accounting for purchased loans, and operating leases that resulted from the issuance of two recent pronouncements. The requirements of the statement are effective for periods beginning after December 15, 2012. There was no significant impact on the financial statements related to the implementation of this statement.

In June 2012, GASB issued a statement to establish new accounting and financial requirements for pension plans provided by the University to its employees. University employees participate in cost-sharing multiple-employer plans, which are within the scope of this statement. This statement will require the University to recognize a net pension liability (or asset), pension expense, and pension-related deferred inflows and outflows of resources based on the University's proportionate share of collective amounts for all participating employers in the plans. GASB issued an amendment to this statement in November 2013. The requirements of these statements are for periods beginning after June 15, 2014. Management believes there will be a significant impact on the financial statements related to the implementation of these statements but is still evaluating the overall effect.

In April 2013, GASB issued a statement to provide accounting and financial reporting guidance for governmental entities that extend and receive nonexchange financial guarantees. The statement requires recognition of a liability when qualitative and historical data indicate it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The statement also requires recognition of a liability by an issuer if it is required to repay a guarantor for guarantee payments unless legally released. The requirements of the statement are for periods beginning after June 15, 2013. There was no significant impact on the financial statements related to the implementation of this statement.

Summary of Significant Accounting Policies

Investments are reported in four categories in the Statement of Net Position. Investments identified as current and noncurrent are used for operating and capital activities. Investments identified as endowment are those funds invested in portfolios that are considered by management to be of a long duration. The fourth investment is identified as the University's investment in UC Health.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported in investment income.

The University's endowment portfolio includes alternative investments, such as limited partnerships, that are not publicly traded. These investments are generally carried at fair value provided by the management of the investment partnerships as of March 31, 2014, as adjusted by cash receipts, cash disbursements and securities distributions through June 30, 2014, in order to provide an approximation of fair value at June 30. In addition, the carrying amount of these investments is adjusted for June 30 information from management of the investment partnerships when necessary to provide a reasonable estimate of fair value as of June 30, 2014. Because these investments are not readily marketable, the estimated value is subject to uncertainty. Therefore, the estimated value may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Accounts Receivable are recorded net of an allowance for uncollectible accounts. The allowance is based on management's judgment of potential uncollectible amounts, based on historical experience and type of receivable. Accounts receivable primarily include tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff.

Pledged gifts for endowments from individuals, foundations, or corporations do not meet eligibility requirements as defined by GASB, to be recognized on the University's Statement of Net Position. The Foundation receives pledges and bequests for the benefit of the University and as a FASB entity, recognizes those gifts on its financial report. Once the gift is received by the Foundation and transferred to the University, the University recognizes the gift income.

Notes receivable are mainly loans made to students under various federal loan programs. Such loans are recorded net of estimated uncollectible amounts.

Capital Assets are comprised of land, land improvements, infrastructure, buildings and equipment. Land, works of art and historical treasures are capitalized but not depreciated. All University assets are recorded at cost at date of acquisition, or market value at date of donation. The University's capitalization threshold is \$100,000 for major capital projects and intangible assets except for internally generated software which has a threshold of \$500,000. For all other items the capitalization threshold is \$5,000. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction. The University and its blended component unit's property and equipment are depreciated using the straight-line method over the estimated useful lives (from three to fifty years) of the respective assets. When plant assets are sold or disposed of, the carrying value of such assets and the associated depreciation are removed from the University's records.

Deferred Outflows of resources is a consumption of net position by the University that is applicable to a future reporting period. Deferred outflows are reported in the statement of net position but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the University consist of deferred losses on debt refundings (defeasance costs).

Compensated absences, reported as accrued compensation, include liabilities related to vacation and sick leave accruals. University employees earn vacation and sick leave on a monthly basis. All accrued

vacation is considered a current liability. Vacation benefits may accrue up to a maximum of three years' credit. Earned but unused vacation days are payable upon termination. Sick leave accrues without limit; however, unused days are payable only upon retirement from the University, subject to 30- or 60-day limits depending on the date of hire. The termination payment method is utilized to compute the liability for sick leave.

Advances include receipts relating to tuition, student fees and athletic events received in advance of services to be provided. Advances also include the amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. The University will recognize such amounts as revenue when services are provided.

Endowment Spending Policy—For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Ohio, permits the University to distribute an amount of realized and unrealized endowment appreciation as the Board of Trustees determines to be prudent. The University's policy is to accumulate the undistributed realized and unrealized appreciation within the endowment, which is discussed in Note 2.

Student Tuition and Residence Hall Fees—Stipends and other payments made directly to students are presented as scholarship and fellowship expenses that offset tuition and fee revenue. Fee authorizations provided to graduate teaching, research and administrative associates as part of employment arrangement are presented in instruction, research and other functional categories of operating expense.

Auxiliary Enterprise Revenues primarily represent revenues generated by athletics, bookstores, the conference center, dining, housing, and parking.

Operating Activities, as reported on the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams available to support operations are classified as nonoperating revenues (i.e. state educational appropriations, nonexchange federal and state grants, gifts, and investment income) in accordance with GASB standards.

Management Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Information—Financial information presented by the University for 2013 is for comparative purposes. This information should be read in conjunction with the University's financial statements for the year ended June 30, 2013, which were previously audited. An unmodified audit opinion was expressed on those financial statements.

Reclassifications—Certain amounts from the prior year have been reclassified to conform to current-year presentation. These reclassifications had no effect on the change in net position.

2. Cash, Cash Equivalents, and Investments

The classifications of cash, cash equivalents, and investments reported on the financial statements are based on criteria set forth by GASB. Cash equivalents are defined to include investments with original maturity dates of three months or less. Substantially all cash, cash equivalents, and investment assets are managed by the University.

The University accounts for temporary investment pool assets separate from its endowment assets. Temporary investment pool assets reported on the Statement of Net Position include the total value of cash and cash equivalents, and current and noncurrent investments. All investments, including cash and cash equivalents, related to the endowment are recorded as noncurrent endowment investments due to the restrictions placed upon these assets. This was a change in accounting principle elected by the University in 2014 as discussed in Note 1.

Temporary Investment Pool

The goal of the University's temporary investment pool investment policy is to invest operating funds and borrowed proceeds to provide, in order of priority, safety of principal, liquidity, and maximum total return consistent with safety and liquidity. The temporary investment pool is invested principally in investment grade money market and fixed income securities of relatively short duration. Diversification of the portfolio is in accordance with state law.

At June 30, 2014, the fair value of the temporary investment pool (in thousands) is as follows:

	Total	Current	Noncurrent
Cash & cash equivalents			
Bank deposits - Federally insured	\$ 457	\$ 457	\$ -
Bank deposits - uninsured	3,209	3,209	-
Money market funds	82,056	82,056	-
Petty cash	94	94	-
Net short term securities	26,734	26,734	-
Sub-total cash & cash equivalents	112,550	112,550	-
Cash in transit	(7,034)	(7,034)	-
Total cash & cash equivalents	105,516	105,516	-
Investment Type			
US government agencies	45,977	24,709	21,268
US treasury obligations	26,449		26,449
Municipal notes and bonds	2,844	2,144	700
Corporate notes and bonds	420,040	205,327	214,713
Total investments	495,310	232,180	263,130
Total Temporary Investment Pool	\$ 600,826	\$ 337,696	\$ 263,130

Endowment Investments

Diversification is a fundamental risk management strategy for the endowment portfolio. Accordingly, the portfolio includes investments in domestic and non-U.S. stocks, bonds and loans; real estate; and limited partnerships for investment in real estate, private equity, and hedge funds. The approved asset mix may range from 70% to 90% variable investments and 10% to 30% fixed income investments, at any one time, at the discretion of the University's investment committee.

The University has an established set of endowment investment guidelines for alternative investments related to targeted asset allocation and allowable ranges. The maximum allowable percentages the portfolio can hold for alternative investments is: private real estate 3%, private equity including natural resources

17%, and hedge funds 20%. The Investment Committee has established the target allocations at the maximum allowable percentages.

Effective June 1, 2009, Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replaced the Ohio Uniform Management of Institutional Funds Act. UPMIFA provides statutory rules for the management and investment of endowment funds owned and controlled by charitable institutions. The University's endowment policies are governed and authorized under University rules and are structured to meet or exceed UPMIFA requirements.

At June 30, 2014, the fair value of the endowment (in thousands) is as follows:

Investment Type	Total	Fund A	Fund B	Separately Invested	Irrevocable External Trusts
Cash & cash equivalents	\$ 36,812	\$ 31,672	\$ -	\$ 5,140	\$ -
US government agencies	7,942	7,942	-	-	-
US treasury obligations	27,092	27,071	-	21	-
Corporate notes and bonds	49,982	49,982	-	-	-
Corporate stocks	71,429	40,183	-	31,246	-
Mutual funds	234,406	233,693	-	713	-
Other securities	453,399	439,653	-	13,746	-
Real estate	10,635	8,430	831	1,374	-
Irrevocable external trusts	293,037	-	-	-	293,037
Fund A valuation timing adjustment	(812)	(812)	-	-	-
Total investments	1,183,922	837,814	831	52,240	293,037
Shares held by UC Foundation	(280,467)	(280,467)	-	-	-
Irrevocable external trusts	(293,037)	-	-	-	(293,037)
Loan to UHCURC (component unit)	(16,998)	(16,998)	-	-	-
Accrued income	(8,489)	(8,199)	-	(290)	-
Dividend receivable	(522)	(522)	-	-	-
Fund A valuation timing adjustment	812	812	-	-	-
University reported endowment investments	\$ 585,221	\$ 532,440	\$ 831	\$ 51,950	\$ -

Endowment shares held by UC Foundation, investments held in irrevocable external trusts, a note payable from University Heights Community Urban Redevelopment Corporation (UHCURC), and accrued income and dividend payable are excluded from endowment investments reported on the Statement of Net Position. The Foundation's share of Fund A is included in the Foundation's assets listed in a discretely presented column on the Statement of Net Position. In accordance with GASB standards, external trust assets are not reported on the Statement of Net Position. As explained in Note 16, UHCURC is a blended component unit of the University and as such, the note receivable is eliminated from endowment investments recorded on the Statement of Net Position.

Fund A

Fund A is the principal investment pool for both University and Foundation endowment funds that may be pooled legally or by donor concurrence. The University's endowment investment policy goal for Fund A is to produce real growth in assets net of administrative and investment fees, by generating a total rate of return which is greater than, or equal to, the spending rate established by the University's endowment spending policy plus the rate of inflation. The University employs the share method of accounting for Fund A investments and for proportionate distribution of income to each fund that participates in the pool. Fund A continues to partially fund a portion of development expenses related to the Foundation's fund raising efforts, which totaled \$10.7 million in 2014.

The University has adopted a spending rate policy which limits the distribution of income earned in Fund A. Distributions are made from Fund A to University departments that benefit from those funds. The 2014 endowment spending policy provides for an annual distribution of 4.75% of the twelve-quarter moving-average market value of endowment units.

At June 30, 2014, Fund A shares totaled 9,693,872 with a market value of \$837,814,000. The Foundation owned 3,279,319 of those shares with a market value of \$280,467,000 (excludes accrued income). The Foundation's share of Fund A is approximately 33.8%. Since 2002, substantially all Foundation endowments held in trust have been invested in Fund A.

Fund A includes alternative investments of \$471,745,000 within mutual funds and other securities in the summary schedule of investments above. Certain of these alternative investments are carried at fair value at March 31, 2014, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2014, at a total estimated fair value of \$127,622,000 (please refer to Note 1, Summary of Significant Accounting Policies, regarding valuation of alternative investments). The University also has alternative investments in investment funds that are not themselves publicly traded funds for which fair values are established by the major securities markets. Such alternative investments are carried at a fair value of \$159,029,000 at June 30, 2014. The University's outstanding commitment to purchase various alternative investments at June 30, 2014, is \$76,548,000.

At June 30, 2014, Fund A other securities also include loans made to certain nonprofit entities for the purpose of developing residential and commercial facilities on the borders of the campus totaling \$38,246,000 net of \$15,731,000 of loan loss reserves for principal and \$16,998,000 for UHCURC. Currently, these loans are secured primarily by mortgages on parcels of land purchased by these nonprofit entities. Some of these mortgages are subordinated to external financing arranged by these entities. These University loans bear interest at 6%. The University expects repayment once the residential and commercial facilities have streams of rental income. Loan loss reserves are estimated based on aggregate cash flow projections for the projects and independent appraisals of the underlying undeveloped real estate. Changes in loan loss reserves are reflected in nonoperating revenues (expenses), as a component of net investment income.

At June 30, 2014, the net gain per share for Fund A is as follows (in thousands):

	<u>Fair Value</u>	<u>Net Cost</u>	<u>Gain</u>	<u>Shares Outstanding</u>	<u>Price Per Share</u>
Beginning balance	\$ 743,261	\$ 731,399	\$ 11,862	9,192	\$ 80.86
Ending balance	837,814	802,476	35,338	9,694	\$ 86.43
Unrealized annual net gain			23,476		
Realized annual net gain			68,765		
Total annual net gain			<u>\$ 92,241</u>		
Total gain per share			\$ 9.52		

Fund B and Separately Invested Assets

Endowment Fund B is comprised of real estate holdings received through donor bequest. These real estate assets total \$831,000 at June 30, 2014. Separately invested funds are invested separate from Fund A as required by donor stipulation; their value totaled \$51,950,000 at June 30, 2014.

Real Estate

Fund A, Fund B, and separately invested assets each include land and other real estate held as investments. At June 30, 2014, the fair market value totaled \$10,635,000, including \$8,430,000 in Fund A, \$831,000 in Fund B, and \$1,374,000 in separately invested endowments. Independent real estate appraisals are obtained on a three-year cycle; however, relevant real estate markets are reviewed between appraisal periods to determine if the reported market values remain reasonable. Appraisers usually consider the use of three approaches to value when developing a market value opinion for real property. These are the cost approach, sales comparison approach, and income capitalization approach. The most recent appraisals were received for June 2012.

Beneficial Interest in Irrevocable External Trusts

The University is the beneficiary of numerous trusts held and administered by external trustees. The market value of these external trustee assets totaled \$293,037,000 at June 30, 2014. These external trusts are irrevocable, and the University has a vested beneficial interest in the net income payable by the trusts. In accordance with GASB standards, these external trust assets are not reported on the University's Statement of Net Position. Income is received annually and reported on the University's Statement of Revenues, Expenses, and Changes in Net Position. In 2014, the University received income of \$9,020,000. Income from the trusts will continue to be received in perpetuity.

Off-Balance-Sheet Risk

The University's investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of risk in excess of amounts reported on the financial statements. These risks include interest rate, credit, and custodial credit. Policies established by the University have been developed to balance the University's exposure to risk while maximizing investment returns.

Interest Rate Risk

Interest rate risk is the risk an investment portfolio may face should interest rate variances affect the fair value of investments. The University's investment policy minimizes the risk of the loss of value due to changing interest rates through the use of target durations. University investment policy stipulates that the weighted average maturity of investments in the temporary investment pool and endowment portfolio will not exceed six (6) years and 20 years, respectively.

At June 30, 2014, the University's investment maturities (in years, in thousands) are as follows:

	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Temporary Investment Pool					
US government agencies	\$ 45,977	\$ 24,709	\$ 17,876	\$ 2,478	\$ 914
US treasury obligations	26,449	-	26,449	-	-
Municipal notes and bonds	2,844	2,144	700	-	-
Corporate notes and bonds	420,040	205,327	197,416	5,411	11,886
Total Temporary Investment Pool	\$ 495,310	\$ 232,180	\$ 242,441	\$ 7,889	\$ 12,800
Endowment Investments					
Money market mutual funds	\$ 13,487	\$ 793	\$ -	\$ -	\$ 12,694
US government agencies	5,255	-	1,377	-	3,878
US treasury obligations	17,934	-	5,443	9,595	2,896
Corporate notes and bonds	32,729	2,321	12,606	10,155	7,647
Other securities	117	117	-	-	-
Local mortgage secured loans	38,246	25,428	7,232	-	5,586
Total Endowment Investments	\$ 107,768	\$ 28,659	\$ 26,658	\$ 19,750	\$ 32,701

The portion of endowment investments, excluding the Foundation's share of Fund A and irrevocable external trust assets, not subject to interest rate risk is \$477,453,000 (i.e. \$585,221,000 – \$107,768,000 = \$477,453,000). Amounts reflected as maturities for local mortgage secured loans represent management's best estimate of anticipated collections for these demand notes. The same applies to credit risk.

Credit Risk

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts reported on the Statement of Net Position and is not represented by the contract or notional amounts of the instruments. In accordance with the University's investment policy, the University's bond and other fixed income investments are rated by nationally recognized rating organizations.

At June 30, 2014, the University's investment credit risk is as follows (in thousands):

	Total	AAA	AA	A	BBB	BB & B	Not Rated
Temporary Investment Pool							
US government agencies	\$ 45,977	\$ 445	\$ 45,532	\$ -	\$ -	\$ -	\$ -
US treasury obligations	26,449	-	26,449	-	-	-	-
Municipal notes and bonds	2,844	-	1,382	-	-	-	1,462
Corporate notes and bonds	420,040	30,084	76,793	242,548	63,423	-	7,192
Total Temporary Investment Pool	<u>\$ 495,310</u>	<u>\$ 30,529</u>	<u>\$ 150,156</u>	<u>\$ 242,548</u>	<u>\$ 63,423</u>	<u>\$ -</u>	<u>\$ 8,654</u>
Endowment Investments							
Money market mutual funds	\$ 13,487	\$ -	\$ -	\$ -	\$ 595	\$ -	\$ 12,892
US government agencies	5,255	-	5,255	-	-	-	-
US treasury obligations	17,934	-	17,934	-	-	-	-
Corporate notes and bonds	32,729	550	3,732	8,222	17,316	1,693	1,216
Other securities	117	-	-	-	-	-	117
Local mortgage secured loans	38,246	-	-	-	-	-	38,246
Total Endowment Investments	<u>\$ 107,768</u>	<u>\$ 550</u>	<u>\$ 26,921</u>	<u>\$ 8,222</u>	<u>\$ 17,911</u>	<u>\$ 1,693</u>	<u>\$ 52,471</u>

The temporary investment pool permits investments in investment grade securities at the time of purchase, as well as a limited amount (10% or less of the temporary investment pool portfolio) of unrated securities. Endowment investment grade bonds are limited to those in the first four grades of any rating system. Below-investment grade high yield bond investments and certain unrated investments having strategic value to the University are permitted. Securities ratings downgraded below investment grade after purchase are permitted to be retained.

Custodial Credit Risk

The University does not have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, a government entity will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. The University's investments are held in trust or by a custodian in the University's name or directly held in the University's name.

3. Accounts and Notes Receivable

Accounts and notes receivable as of June 30, 2014 is as follows (*in thousands*):

Accounts receivable	\$ 45,997
Notes receivable	29,465
Accrued interest receivable	<u>9,425</u>
Total	84,887
Less current receivables	<u>54,863</u>
Noncurrent receivables	<u>\$ 30,024</u>

Allowances for uncollectible receivables have been provided in the amount of approximately \$5,074,000 for accounts receivable and \$6,571,000 for notes receivable as of June 30, 2014.

An allowance for uncollectible accrued interest receivable has been provided in the amount of approximately \$23,868,000 related to loans made to certain nonprofit entities as of June 30, 2014.

4. Investment in UC Health

UC Health (legally known as UC Healthcare System and Affiliate) is an Ohio private nonprofit corporation that is qualified as a tax-exempt organization and is a "public hospital agency" within the meaning of Chapter 140 of the Ohio Revised Code. UC Health is the renamed and reorganized Ohio nonprofit corporation formerly referred to as The Health Alliance of Greater Cincinnati (the Alliance). UC Health's mission is to provide life changing, patient centered medical care, drive innovation through ground breaking research, and educate and inspire the next generation of healthcare professionals within an integrated health care delivery system. Its vision is to be the region's quality health care partner and a national leader in solving complex medical problems. UC Health includes University of Cincinnati Medical Center, West Chester Hospital, Drake Center, Lindner Center of HOPE, Bridgeway Pointe, and University of Cincinnati Physicians, Inc.

UC Health operates under an affiliation agreement that was entered into between the University, UC Health, and UC Healthcare System on June 28, 2012. Pursuant to the affiliation agreement, the University retained its equity interest in the net assets of UC Health. The equity interest is recorded on the University's Statement of Net Position in the noncurrent section and is valued based on the cost method. Management believes that the cost method is the preferred valuation method to reflect the relationship change from a joint venture structure under the Alliance agreement to a single member relationship as defined in the June 28, 2012 affiliation agreement. The value of the investment is recorded at \$421 million and has been since 2011. The University monitors any potential changes to the investment valuation such as impairment. There were no changes to the investment value in UC Health for the year ended June 30, 2014.

UC Health provides the University an annual education and research payment and programmatic support that must be used exclusively for Academic Health Center purposes. The total of these payments and support for the year ended June 30, 2014 was \$16,269,000. The University also provides various shared services, consisting mainly of utilities, security and various administrative services to UC Health for which the University is reimbursed on a cost basis. The total cost of these services for the year ended June 30, 2014 was approximately \$15,038,000.

5. Capital Assets

Capital asset activity for the year ended June 30, 2014 is summarized as follows (*in thousands*):

	Balance July 1, 2013	Additions	Retirements/ Transfers	Balance June 30, 2014
Land	\$ 26,565	\$ -	\$ -	\$ 26,565
Land improvement	101,669	-	2,810	104,479
Buildings	1,943,085	-	165,908	2,108,993
Construction in progress	216,864	108,179	(193,322)	131,721
Infrastructure	117,870	-	1,831	119,701
Building equipment	15,592	-	128	15,720
Moveable equipment	197,564	12,456	(5,708)	204,312
Computer software	39,082	-	14	39,096
Library books	170,352	7,953	(1,462)	176,843
Collections	15,135	108	286	15,529
	2,843,778	128,696	(29,515)	2,942,959
Less: Accumulated depreciation	1,377,412	104,362	(23,702)	1,458,072
Capital assets, net	\$1,466,366	\$ 24,334	\$ (5,813)	\$1,484,887

Land, construction in progress and collections, as shown above, represent nondepreciable items. Therefore, there is no accumulated depreciation for those categories.

6. Bonds, Notes, Capital Leases, and Other Debt

Bonds, notes, capital leases, and other debt at June 30, 2014 comprise the following (*in thousands*):

Bond Series – Fixed Rate Debt	Issue Date	Maturity Dates Through	Interest Rates	Amount
2004E	2005	2016	3.75 - 5.00%	\$3,310
2005A	2005	2020	5.00%	60,275
2005D	2006	2019	4.00 - 5.00%	17,025
2006A	2006	2031	3.75 - 5.00%	15,900
2007A	2007	2031	4.00 - 5.00%	69,495
2007G	2008	2034	3.75 - 5.00%	80,545
2008C	2008	2031	3.12 - 5.00%	33,045
2008G	2009	2020	4.00 - 5.50%	12,825
2009C	2010	2030	3.00 - 5.00%	95,900
2009E	2010	2030	2.50 - 4.65%	5,210
2010B	2011	2015	3.00%	230
2010C (Taxable Build America Bonds)	2011	2039	3.24 - 6.48%	93,085
2010F	2011	2034	3.00 - 5.00%	81,625
2010G (Taxable Build America Bonds)	2011	2032	4.72 - 6.28%	14,880
2011A	2011	2021	3.50 - 5.00%	12,780
2011C	2011	2031	3.00 - 5.25%	25,885
2011E	2012	2028	3.00 - 5.00%	28,720
2012A	2012	2031	2.00 - 5.00%	87,555
2012C	2013	2033	3.00 - 5.00%	81,940
2013A	2013	2034	3.12 - 5.00%	16,120
2013C	2014	2039	5.00%	54,125
2013D (Taxable)	2014	2033	4.642 - 5.153%	37,365
2014B	2014	2036	3.00 - 5.00%	94,625
Total bonds – fixed rate debt				<u>1,022,465</u>
Notes				
2014A	May-14	May-15	1.00%	<u>23,900</u>
Total notes				<u>23,900</u>
Capital Leases				
University Center (2005)	2005	2024	3.50-5.00%	41,040
Stetson capital lease	2006	2033	4.25-5.97%	30,110
Turner capital lease	2006	2033	4.13-5.25%	<u>9,080</u>
Total capital leases				<u>80,230</u>
Total bonds, notes, and capital leases				<u>1,126,595</u>
Other Debt				
UHCURC*/Hamilton County Bonds-Series 2010	2011	2039	3.00-5.00%	49,220
Premium				<u>60,672</u>
Total other debt				<u>109,892</u>
Total bonds, notes, capital leases, and other debt				<u><u>\$ 1,236,487</u></u>

*University Heights Community Urban Redevelopment Corporation (see Note 16)

Debt Issuances and Permanent Fundings

General Receipt Bonds

During the year ended June 30, 2014, the University issued the following general receipt fixed rate bond series:

Series 2013C tax exempt bonds were issued on December 20, 2013 in the amount of \$54,125,000. This bond series was issued at a premium and bears interest at 5.00%. The final maturity of Series 2013C is June 1, 2039. The proceeds were used to pay associated bond issue costs, capitalized interest and to provide 60% of the funding for the Nippert Stadium project which represents the general use for the project.

Series 2013D taxable bonds were issued on December 20, 2013 in the amount of \$37,365,000. This bond series was issued at a premium and bears interest at rates ranging from 4.642% to 5.153%. The final maturity of Series 2013D is June 1, 2033. The proceeds were used to pay associated bond issue costs, capitalized interest and to provide 40% of the funding cost for the Nippert Stadium project which represents the potential private use for the project.

Series 2014B tax exempt bonds were issued on May 28, 2014 in the amount of \$94,625,000. This bond series was issued at a premium and bears interest at rates ranging from 3.00% to 5.00%. The final maturity of Series 2014B is June 1, 2036. The proceeds were used to pay associated bond issue costs and to provide funding for the following capital projects: Student Information System (\$30,000,000), Teacher's College/Dyer Hall Rehabilitation Phase 3 (\$42,000,000), Roof Replacement Phases 6 and 7 (\$6,000,000); and to refund a total of \$24,760,000 of existing debt - \$2,455,000 of Series 2004A bonds were current refunded and \$22,305,000 of Series 2006A bonds were advance refunded.

Derivative Transactions

The University has one pay-fixed interest rate swap in effect at June 30, 2014, which has been in existence since May 1, 2009. The initial objective of this interest rate swap was to protect the University against the potential of rising interest rates within the fixed rate market. Through the evaluation process outlined in GASB standards, the University has determined its interest rate swap to be ineffective, thus it is considered to be an investment derivative versus a hedging derivative. The fair value of the swap on June 30, 2014 was (\$3,409,000). The fair value decreased by \$198,373 in 2014; this change is reported as an investment loss within the Statement of Revenues, Expenses and Changes in Net Position and increases the interest rate swap liability on the Statement of Net Position.

The following table summarizes the University's pay-fixed interest rate swap agreement as of June 30, 2014:

Associated Debt Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Index Received	Fair Value	Swap Termination Date	Counterparty Rating
2014A BANS	\$24,075,000	5/1/2009	3.163%	USD- 67% LIBOR-BBA-1M	(\$3,409,000)	6/1/2030	AA-/Aa3

Based on the swap agreement, the University pays to the swap counterparty (Royal Bank of Canada) interest calculated at a fixed rate. In return, the swap counterparty pays the University interest based on a specified index. Only the net difference in interest payments is actually exchanged between the parties. The University continues to pay interest on the 2014A BANS obligations as due. The University has no collateral posting requirements on this swap.

Risks

Credit Risk: There are no counterparty collateral posting requirements on the swap. The University was not exposed to credit risk of the counterparty as the swap had a negative fair value throughout fiscal year 2014. A derivative management guideline is in place at the University, which addresses diversifying counterparty risk and limiting the University's credit exposure on derivative transactions.

Basis Risk: The swap exposes the University to basis risk should the interest rate received on the swap be less than the interest rate paid on the obligation. This mismatch will effectively result in a higher synthetic fixed rate and the expected savings may not be realized. As of June 30, 2014, the University is experiencing basis risk due to the issuance of a BAN at a higher rate of interest than what is being received on the swap.

Termination Risk: The University or counterparty may terminate the swap if either party fails to perform under the terms of the agreement. Termination provisions may result in the University paying or receiving a termination payment, depending on the value of the swap at that point in time.

Market-access Risk: Market conditions in the spring of 2009 prevented the University from issuing a variable rate bond series to coincide with the June 1, 2030 maturity date of the swap, therefore Series 2009A BANS was issued on May 12, 2009. Subsequent BANS have been issued on an annual basis to refund maturing notes; Series 2014A BANS is the current debt issue associated with the swap. The University will again reevaluate the municipal market and the fair value of the swap in the spring of 2015 to take appropriate actions relating to the Series 2014A BANS and the outstanding swap.

Fair Value

As of June 30, 2014, the fair value of the swap agreement was a liability of \$3,409,000 (reported as interest rate swap liability on the Statement of Net Position), indicating the amount that the University would be required to pay the counterparty to terminate the swap agreement. The fair value was estimated using the income approach, which converts future cash flows to a single present value using discounting. That value is then adjusted to incorporate non-performance risk for the University since the swap is a liability. The fair value of the swap agreement was developed by an independent third party with no vested interest in the swap transaction.

Bond Anticipation Notes

During the year ended June 30, 2014, the University issued the following Bond Anticipation Notes (BANS):

- Series 2014A was issued at a premium on May 9, 2014 in the amount of \$23,900,000, at an interest rate of 1.00%, to current refund \$23,900,000 of Series 2013B BANS. The remaining Series 2013B BANS were retired with University cash and gifts. Series 2014A matures on May 8, 2015.

Capital Lease Obligations

At June 30, 2014, the capital lease obligation to finance the costs of the University's University Center project was \$41,040,000. The lease for the University Center constitutes an unconditional obligation of the University to make lease payments which pay principal and interest on certain certificates of participation issued by The Bank of New York Mellon Trust Company, N.A., as trustee, through the final maturity of such certificates to the extent of the University's general receipts.

In addition, the University has capital lease obligations in connection with the financing of two buildings (One Stetson Square and the Turner Center) which are owned by King Highland Community Urban Redevelopment Corporation and occupied, all or in part, by the University. At June 30, 2014, the University's capital lease obligation for One Stetson Square was \$30,110,000; at June 30, 2014, the University's capital lease obligation for Turner Center was \$9,080,000. This financing was affected by the issuance of economic development revenue bonds by the County of Hamilton, Ohio (the "King Highland Bonds"). The leases for One Stetson Square and the Turner Center also constitute unconditional obligations to make lease payments which pay the principal and interest on the King Highland Bonds.

The University has not pledged its general receipts to the payment of these leases nor has the University pledged its general receipts to the payment of such Certificates of Participation. Holders of the Bond Anticipation Notes have a prior and superior claim to the general receipts than does King Highland and the trustee for the holders of such Certificates of Participation.

Refundings

General Receipts Bond Anticipation Notes—Series 2014A general receipt bond anticipation notes (BANS) were issued on May 9, 2014 in the amount of \$23,900,000 for the purpose of current refunding \$23,900,000 of Series 2013B BANS. The proceeds from the sale of the Series 2014A BANS along with University gifts were used to refund/retire Series 2013B BANS on May 9, 2014. Series 2014A BANS were issued to refund \$23,900,000 of the Series 2013B BANS which current refunded Series 2012B BANS issued in May 2012, which current refunded Series 2011B BANS issued in May, 2011, which current refunded Series 2010A BANS issued in May 2010, which current refunded Series 2009A BANS issued in May 2009 to current refund \$23,380,000 of the following June 1, 2009 fixed rate bond maturities: Series AL1 \$240,000, Series AO \$480,000, Series AQ \$270,000, Series AT \$30,000, Series AU \$105,000, Series AV \$35,000, Series AZ \$80,000, Series 2001A \$7,090,000, Series 2002A \$240,000, Series 2002D \$340,000, Series 2002F \$1,725,000, Series 2002G \$1,015,000, Series 2003C \$4,430,000, Series 2004A \$2,130,000, Series 2004D \$975,000, Series 2004E \$1,295,000, Series 2006A \$2,120,000 and Series 2007A \$780,000. The Series 2009A BANS were initially issued in place of variable rate bonds. The interest rate swap is now associated with the 2014A BAN issue. When bonds are issued to replace the BANS, they will have maturities that will correspond to the swap amortization. There was no gain or loss on the refunding transaction.

General Receipts Bonds— Series 2014B general receipt bonds were issued on May 28, 2014 in the amount of \$94,625,000. A portion of the proceeds were used to refund a total of \$24,760,000 in existing debt which included current refunding \$2,455,000 of Series 2004A fixed rate bonds; and advance refunding \$22,305,000 of Series 2006A fixed rate bonds. The purpose of this transaction was to refund callable maturities to achieve future debt service savings. The cash flow differential from the refunding totals \$2,917,000 and will be realized over a period of 18 years as a reduction of interest expense. The transaction also produced an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$2,463,000. As a result of the refunding, \$2,185,000 has been recorded as loss on refunding within deferred outflows of resources on the Statement of Net Position and will be amortized into income from 2014 through 2031. The loss on refunding reflects the difference between the refunding reacquisition price for the respective portion of Series 2014B and the net carrying amount of the outstanding principal balances of the refunded debt issues.

Collateralization and Debt Service Reserves

The general receipts bonds and general receipts bond anticipation notes are collateralized by a pledge of general receipts of the University. The capital lease obligations and capital leases (Stetson and Turner) are secured by base rent payments under the leases. The net book value of assets under capital lease obligations is \$99,353,000 as of June 30, 2014. Payment of base rents is subordinate to debt service payments on the University's general receipt bonds and bond anticipation notes.

Debt service reserves were required for debt issued under the Original Trust Agreement dated May 1, 1974. The Amended and Restated Trust Agreement dated May 1, 2001 removed the debt service reserve requirement for subsequent bond issues, but required the debt service reserves on pre-amended bonds to remain in place until they were fully refunded or retired. All pre-amended bonds have been fully refunded or retired as of June 30, 2014 and thus the University no longer maintains any debt service reserves.

Debt Service Commitments

For bonds and notes payable at June 30, 2014 (including the UHCURC/Hamilton County bonds), scheduled annual debt service payments subsequent to June 30, 2014 are as follows (*in thousands*):

<u>Fiscal Year</u>	<u>Principal *</u>	<u>Interest**</u>	<u>Total</u>
2015	\$65,035	\$52,754	\$117,789
2016	47,230	50,671	97,901
2017	53,635	48,588	102,223
2018	56,300	46,053	102,353
2019	53,990	43,359	97,349
2020-2024	265,650	176,741	442,391
2025-2029	247,975	113,852	361,827
2030-2034	192,855	58,685	251,540
2035-2039	109,720	18,737	128,457
2040	3,195	152	3,347
Total	<u>\$1,095,585</u>	<u>\$609,592</u>	<u>\$1,705,177</u>

* Fiscal year 2015 principal includes \$23,900,000 of BANS that are outstanding as of June 30, 2014. These BANS are expected to be retired, renewed or refunded into long term debt.

** Amounts do not reflect federal subsidies to be received for Build America Bonds interest.

The University's \$24,075,000 LIBOR swap is currently attached to Series 2014A BANS. Principal and associated interest for this BAN series is reflected within FY15 in the debt service table; the swap payments associated with the LIBOR swap are not reflected in the table.

Scheduled principal and interest payments on capital leases subsequent to June 30, 2014 are (*in thousands*):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$5,830	\$4,028	\$9,858
2016	6,785	3,732	10,517
2017	4,300	3,394	7,694
2018	4,570	3,179	7,749
2019	4,865	2,950	7,815
2020-2024	29,195	10,817	40,012
2025-2029	12,345	5,055	17,400
2030-2033	12,340	1,580	13,920
Total	<u>\$80,230</u>	<u>\$34,735</u>	<u>\$114,965</u>

Defeased Debt

Debt defeased by the University for which amounts remain outstanding at June 30, 2014, is *(in thousands)*:

<u>Bond Series</u>	<u>Maturity Dates</u>	<u>Interest Rate(s)</u>	<u>Amount Outstanding</u>
Series 2004E	2017-2021	3.85-5.00%	\$9,480
Series 2006A	2018-2026	4.15%-5.00%	<u>22,305</u>
Total			<u>\$31,785</u>

Neither the outstanding indebtedness nor the related trust accounts are reflected in the accompanying financial statements for the fully defeased bonds listed above. United States Treasury obligations and/or cash in an amount sufficient to pay principal and interest on the defeased obligations, when due, has been deposited with a trustee in accordance with the defeasance of the debt.

Other

Interest expense on indebtedness, net of Build America Bond federal interest subsidy (\$1,295,000) for the year ended June 30, 2014 was \$43,150,000. Capitalized interest expense on construction-related debt, net of Build America Bond Federal interest subsidy (\$868,000) and interest earnings (\$492,000) was \$5,454,000.

7. Long-Term Liabilities

Long-term liabilities as of June 30, 2014 are as follows *(in thousands)*:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Bonds, notes and capital leases:						
Bonds and notes payable	\$987,810	\$210,015	\$102,240	\$1,095,585	\$65,035	\$1,030,550
Capital lease-equipment	90	-	90	-	-	-
Capital lease obligations	85,745	-	5,515	80,230	5,830	74,400
Premium	<u>48,759</u>	<u>15,702</u>	<u>3,789</u>	<u>60,672</u>	<u>7,514</u>	<u>53,158</u>
Total bonds, notes and capital leases	<u>1,122,404</u>	<u>225,717</u>	<u>111,634</u>	<u>1,236,487</u>	<u>78,379</u>	<u>1,158,108</u>
Other long-term liabilities:						
Compensated absences	55,913	5,196	5,671	55,438	37,373	18,065
Government loan advances	25,853	250	4,900	21,203	-	21,203
Interest rate swap liability	<u>3,211</u>	<u>198</u>	-	<u>3,409</u>	-	<u>3,409</u>
Total other long-term liabilities	<u>84,977</u>	<u>5,644</u>	<u>10,571</u>	<u>80,050</u>	<u>37,373</u>	<u>42,677</u>
Total	<u>\$1,207,381</u>	<u>\$231,361</u>	<u>\$122,205</u>	<u>\$1,316,537</u>	<u>\$115,752</u>	<u>\$1,200,785</u>

8. Operating Leases

The University leases various office space and equipment under operating lease arrangements. These facilities and equipment are not recorded as assets on the Statement of Net Position. The total rental expense under all arrangements was \$7,937,000 for the year ended June 30, 2014.

There are two significant operating leases that the University has entered into with initial or remaining terms in excess of one year as of June 30, 2014. In August 2010, the University entered into an operating lease arrangement with IRG Batavia I, LLC for the use of two buildings and common space located in Batavia, Ohio. This lease has an initial term of five years with four renewal options of five year terms each. Monthly lease payments started at \$30,565 with an increase of 3% each lease year thereafter. The expense for this lease in 2014 was \$443,533. In May 2013, the University entered into an operating lease arrangement with USquare, LLC for the use of office space adjacent to the Uptown campus. This lease has an initial term of ten years with renewal options of two consecutive five year terms. There were minimal expenses for this lease in 2014.

Future minimum payments for the above two operating leases as of June 30, 2014, are as follows:

<u>Year Ended June 30,</u>	
2015	\$ 1,038,651
2016	646,982
2017	598,333
2018	607,167
2019	616,367
2020-2023	<u>2,503,533</u>
	<u>\$ 6,011,033</u>

9. State Support

The University is a state-assisted institution of higher education and receives from the State of Ohio a state share of instruction that is student-enrollment based. This subsidy is determined annually by the Ohio Board of Regents. The State also provides line-item appropriations that support, in part, the current operations of various activities including clinical teaching expenditures.

In addition to the operating subsidies, the State of Ohio provides funding for construction and renovation of major plant facilities on the University's campuses. The state passes a capital appropriations bill biannually for both major capital projects and basic renovation projects of which the University receives a share. Such facilities are reported as capital assets on the Statement of Net Position.

10. Retirement Plans and Other Post Employment Benefits

Retirement benefits are available for substantially all employees under one of several contributory retirement plans. Prior to July 1, 1977, when the University became a state institution, employees were covered by either the City of Cincinnati Retirement System (CRS) or the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Certified teachers appointed on or after July 1, 1977, are covered by the State Teachers Retirement System (STRS Ohio). Non-certified employees appointed on or after that date are covered by the Ohio Public Employees Retirement System (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

STRS Ohio and OPERS are statewide systems that offer three separate plans: (1) a defined benefit plan, (2) a defined contribution plan, and (3) a combined plan. Each of the three options is discussed in greater detail in the following sections.

Defined Benefit Plans

The OPERS and STRS Ohio plans are cost-sharing, multiple-employer, defined-benefit, public-employee retirement systems. Each provides retirement, disability, and survivor benefits to plan members and beneficiaries. These plans also provide health care benefits to vested retirees. Benefits provided under the plans are established by state statute.

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying Ohio service credit under the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. The Ohio Revised Code permits, but does not mandate, OPERS to provide Other Post Employment Benefits (OPEB) to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums.

Both plans issue separate, publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by contacting each organization as follows:

OPERS
277 East Town Street, Columbus, Ohio 43215-4642
Telephone (800) 222-7377
www.opers.org

STRS Ohio
275 East Broad Street, Columbus, Ohio 43215-3771
Telephone (888) 227-7877
www.strsoh.org

Defined Contribution Plans

On June 23, 1998, pursuant to Ohio House Bill 586, the University created an Ohio Alternative Retirement Plan (ARP), which is designed to aid the University in recruiting and retaining employees by offering a portable retirement option. The ARP is a defined contribution plan that provides full and immediate vesting of all contributions made on behalf of the participant. Contributions are directed to one of eight investment management companies, which allow the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 120 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

At June 30, 2014, there were 2,068 members in the plan. Under the provisions of ARP, the required rate for plan participants electing out of OPERS and STRS Ohio was 10% and 11%, respectively. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2014. During 2014, 2013, and 2012, the employer contributions were \$15,953,000, \$16,174,000, and \$15,476,000, respectively. A portion of the employer contribution rate for those employees that elect to participate in the ARP is directed to the unfunded liability accounts for both OPERS and STRS Ohio. The rates for fiscal year 2014 were 0.77% to OPERS and 4.5% to STRS Ohio. The employer contributions to the OPERS unfunded liability account during 2014, 2013, and 2012 were \$563,000, \$538,000, and \$524,000, respectively. The employer contributions to the STRS Ohio unfunded liability account during 2014, 2013, and 2012 were \$3,113,000, \$2,457,000, and \$2,292,000, respectively.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement health care benefits.

Combined Plans

OPERS offers a combined plan. This is a cost-sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits. OPERS provides retirement, disability, survivor and postretirement health benefits to qualifying members of the combined plan.

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits.

Funding Policy

The Ohio Revised Code provides OPERS and STRS Ohio statutory authority over employer and employee contributions. The required actuarially determined contribution rates (as a percentage of covered payroll) for the employee and the University are as follows for the year ended June 30, 2014:

	OPERS (staff)	OPERS (Law Enforcement staff)	STRS Ohio
<u>Employee:</u>			
Entire fiscal year	10%		11%
7/13 – 12/13		12.60%	
1/14 – 6/14		13.00%	
<u>University:</u>			
Entire fiscal year	14%	18.10%	14%

The University's contributions, representing 100% of employer contributions for the year ended June 30, 2014, and for each of the two preceding years are as follows (*in thousands*):

<u>Fiscal Year</u>	<u>OPERS</u>	<u>STRS Ohio</u>
2014	\$21,144	\$18,040
2013	\$21,114	\$18,399
2012	\$20,897	\$17,840

OPERS Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For the calendar year ended December 31, 2013, OPERS allocated 1.0% of the employer contribution rate to fund the health care program for members in both the Traditional Plan and Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. University employer contributions to OPERS to fund OPEB for 2014, 2013, and 2012 were approximately \$1,550,000, \$6,026,000, and \$6,115,000 respectively.

For the fiscal year ended June 30, 2013, STRS Ohio allocated employer contributions equal to 1.0% covered payroll to a Health Care Stabilization Fund from which payments for health care benefits are paid. University employer contributions to STRS Ohio to fund OPEB for 2014, 2013, and 2012 were approximately \$1,511,000, \$1,350,000, and \$1,274,000, respectively.

11. Risk Management and Self-Insurance Funds

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Settled claims have not exceeded commercial coverage in any of the three preceding years. The state of Ohio self-insures workers' compensation benefits for all state employees, including University employees. Workers' compensation claims are administered by CareWorks.

The University provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and has purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes qualified not-for-profit physician practice corporations, largely subsumed into University of Cincinnati Physicians, Inc. Medical professional self-insurance limits were \$4 million per occurrence for 2014. An additional \$30 million in commercial excess professional liability insurance was provided above the self-insured retention.

The University's self-insurance program is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical and professional liability and one for general liability. In the opinion of management, trust assets totaling approximately \$24,788,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2014 for the University and University of Cincinnati Physicians, Inc. Trust assets recorded on the University's financial report total \$4,106,000 included in current portion of other assets and liabilities of \$739,000 included in accrued liabilities in the Statement of Net Position as of June 30, 2014.

General liability coverage is also provided as part of a group insurance program of Ohio state universities known as the Inter-University Council of Ohio Insurance Consortium (IUC-IC). This program provided for \$10 million retention per occurrence with the first \$100,000 funded by UC, \$900,000 funded by pooled funds held through the IUC-IC and \$9 million reinsured through a commercial reinsurance agreement. Excess commercial coverage for general liability was provided with total limits of \$50 million shared with the other participating universities. In addition, educators' legal liability coverage was provided through the IUC-IC program with \$35 million in total limits also shared among the participating institutions. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities. This program qualifies as a public entity risk pool as defined by GASB standards and is classified as a risk-sharing pool. Under this arrangement, there is a transfer of risk from the University to the pool. Therefore, there is no recognition in the University's financial statements of assets or liabilities related to the IUC-IC program.

Property insurance is also provided through the IUC-IC program, consisting of commercial property insurance with a \$350,000 retention, and a self-insurance pool to fund retained losses subject to a \$100,000 university deductible. Total insurance expense paid through the IUC-IC program was \$1,591,000.

The University is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees. The cost of such self-insured benefits provided during 2014 was approximately \$88,049,000. In addition, \$6,912,000 was accrued for 2014, for estimated claims incurred but not reported.

12. Other Commitments and Contingencies

The University is currently a defendant in various legal actions. Although the final outcome of such actions cannot currently be determined, the University's administration is of the opinion that the eventual liability, if any, will not have a material effect on the financial position or operations of the University.

The University receives grants and contracts from certain federal, state and local agencies to fund research and other activities. The costs, both direct and indirect, that have been charged to the grants or contracts are subject to examination and approval by the granting agency. It is the opinion of management that any disallowance or adjustment of such costs would not have a material effect on the financial statements.

The University's utility plant is exposed to market price fluctuations on its purchase of natural gas. Purchase commitments have been issued with certain suppliers of natural gas whereby the University has locked in the price of natural gas for specified amounts to stabilize costs.

13. Capital Project Commitments

At June 30, 2014, the University is committed to future capital expenditures as follows (*in thousands*):

Contractual commitments	\$ 72,705
Estimated completion costs of projects	<u>255,461</u>
Total	<u>\$ 328,166</u>

These projects are being funded through various resources, including the State of Ohio, as follows (*in thousands*):

Approved state appropriations requested and released as of June 30, 2014	\$ 2,147
Approved state appropriations not yet requested	1,135
University funded prior to June 30, 2014	114,656
Funds to be provided subsequent to June 30, 2014, from various available sources	<u>210,228</u>
Total	<u>\$ 328,166</u>

The \$210,228,000 of funding to be provided subsequent to June 30, 2014 will come from state funds, debt, and University funds.

14. Restricted Net Position

Restricted net position is either nonexpendable or expendable. Nonexpendable restricted net position consists primarily of endowments whose corpus is held in perpetuity. Only the income and net appreciation is used for the purpose specified by the donor. The principal of expendable restricted net position may be used for the donor-specified purpose. Restricted nonexpendable and expendable net position is held for the following purposes (*in thousands*):

Restricted nonexpendable:	
Instruction	\$ 109,533
Research	37,130
Academic support	44,898
College/programs	86,845
Scholarships	77,800
Interest in UC Health	420,645
Other	12,655
	<u>789,506</u>
Less: UHCURC Elimination	16,998
Total	<u>\$ 772,508</u>

Restricted expendable:	
Instruction	\$ 30,221
Research	102,996
Academic support	27,735
College/programs	101,855
Scholarships	38,318
Student loans	10,193
Grants and contracts	1,245
Total	<u>\$ 312,563</u>

15. Related Organization

The University of Cincinnati Physicians, Inc. (UCP) is a legally separate nonprofit corporation formed under Chapter 1702 of the Ohio Revised Code through which the faculty of the University of Cincinnati's College of Medicine engage in clinical practice. In 2011, UCP entered into an integration of operations and assets agreement with UC Health and UC Health's wholly-owned subsidiary, University of Cincinnati Physicians Company (UCPC), an Ohio non-profit corporation, to form a common medical enterprise. This agreement facilitates the legal arrangements for UCP to lease certain of its employees and provide administrative and operational support services to UCPC. The agreement also facilitated the conveyance, transfer, and deliverance to UCPC assets and liabilities used in connection with the operations of the medical practices and related businesses.

The University appoints a voting majority of UCP's Board of Directors. However, the University's accountability for UCP does not extend beyond making these appointments. As such and per GASB standards, UCP does not qualify as a component unit of the University.

16. University Heights Community Urban Redevelopment Corporation

University Heights Community Urban Redevelopment Corporation (UHCURC) is organized as a not-for-profit corporation under the laws of the state of Ohio. Its mission is to revitalize the University Heights neighborhood adjacent to the University of Cincinnati. UHCURC was organized by three founding members: The Heights Community Council, the Greek Affairs Council and the University of Cincinnati. The corporation owns a student housing complex that consists of 20 buildings with the capacity to house approximately 700 students.

The governance structure of UHCURC's Board of Trustees gives the University a voting majority on the board. Due to this structure and the fact the University can impose its will on UHCURC, the organization is reported as a blended component unit of the University. Accordingly, all significant intercompany accounting transactions have been eliminated as required by generally accepted accounting principles.

UHCURC's fiscal year end is August 31. As GASB standards require, the reporting entity should incorporate financial statements for the blended component unit's fiscal year ended during the reporting entity's fiscal year. Therefore, UHCURC's financial statements for the year ended August 31, 2013 have been blended with the University's financial statements for the fiscal year ended June 30, 2014.

A condensed statement of net position for UHCURC as of August 31, 2013 and the related statement of revenues, expenses and changes in net position and statement of cash flows for the year then ended are as follows:

Statement of Net Position

	8/31/2013
Current assets	\$43,746
Capital assets not being depreciated	4,788,026
Capital assets being depreciated, net	44,779,101
Total assets	49,610,873
Deferred outflows of resources	890,421
Current liabilities	583,463
Long-term debt – current portion	1,010,000
Long-term debt	47,570,024
Accrued interest payable – University of Cincinnati	9,428,719
Notes payable – University of Cincinnati	16,998,436
Total liabilities	75,590,642
Net Investment in capital assets	(11,201)
Unrestricted	(25,078,147)
Total net position	(\$25,089,348)

Statement of Revenues, Expenses and Changes in Net Position

	8/31/2013
Operating revenues	\$3,346,685
Operating expenses	3,471,237
Depreciation	1,578,000
Operating loss	(1,702,552)
Other nonoperating expenses	(1,152)
Decrease in net position	(1,703,704)
Net position, beginning of the year	(23,385,644)
Net position, end of the year	(\$25,089,348)

Statement of Cash Flows

	8/31/2013
Net cash from operating activities	\$1,013,311
Net cash used for capital and financing activities	(1,007,856)
Net increase in cash and cash equivalents	5,455
Cash and cash equivalents, beginning of the year	38,261
Cash and cash equivalents, end of the year	\$43,716

17. University of Cincinnati Foundation

The University of Cincinnati Foundation is a legally separate, tax-exempt component unit of the University. The Foundation complies with FASB pronouncements for reporting purposes. The principal function of the Foundation is to solicit, reserve, hold, invest and administer funds and to make distributions to or for the benefit of the University. Since these resources held by the Foundation can be used only by or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University received \$37,244,000 in payments from the Foundation for the period ended June 30, 2014. These payments are reported as gifts on the University's Statement of Revenues, Expenses, and Changes in Net Position.

Separate financial information regarding the Foundation may be obtained by contacting the Foundation at University of Cincinnati Foundation, University Hall, Suite 100, 51 Goodman Drive, Cincinnati, Ohio 45221-0064. Selected disclosures from the University of Cincinnati Foundation financial statements can be found beginning on the following page.

THE UNIVERSITY OF CINCINNATI FOUNDATION NOTES TO FINANCIAL STATEMENTS

PLEDGES RECEIVABLE

Contributors to the Foundation have made unconditional pledges totaling approximately \$90,065,000 as of June 30, 2014. 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 \$79,563,000 as of June 30, 2014.

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

	2014
Less than one year	\$ 20,618,033
One to five years	31,470,423
More than five years	<u>37,976,751</u>
	90,065,207
Less discount to present value	(10,501,839)
Less allowance for uncollectible pledges	<u>(3,960,000)</u>
	\$ 75,603,368

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

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

Ten donors currently have outstanding conditional pledges to the Foundation. As of June 30, 2014, the conditions were not substantially met, therefore, the net present value of the pledges is not included in the carrying amount of pledges receivable. The net present value of the conditional pledges approximated \$1,315,000 as of June 30, 2014.

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 either unrestricted or temporarily restricted net assets, unless otherwise stipulated by the donor. Financial assets are to be invested in a manner consistent with statutory fiduciary responsibilities and policies adopted by the Foundation's Board of Trustees.

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

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

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

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

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

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

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.

INVESTMENTS

The Foundation combines its pooled investment securities with the investment pool of the University in order to maximize investment diversification and realize economies of scale with respect to costs of managing the investments. The Foundation continues to serve as trustee for these assets. The Foundation maintains individual records of each fund included in the transfer of assets to the investment pool of the University. Each fund subscribes to, or disposes of, units in the pool at the unit market value at the end of each quarter. Income is allocated to each fund in the pool based on units of participation. As of June 30, 2014, the University is holding approximately \$2,563,000 that is to be invested in the University pooled investments. This amount is recorded as other investments in the Statements of Financial Position.

The Foundation also manages other investments, which amounted to approximately \$49,916,000 as of June 30, 2014. 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, 2014:

	2014 Fair Value	2014 Cost
Cash equivalents	\$ 3,990,384	\$ 3,990,545
U.S. Government and agency obligations	3,323,088	3,257,538
Corporate bonds	10,705,380	10,786,594
Mutual funds	22,433,845	19,406,764
Common stocks and exchange traded funds	12,026,194	7,564,068
University pooled investments	<u>283,422,208</u>	<u>285,509,758</u>
Total	<u>\$ 335,901,099</u>	<u>\$ 330,515,267</u>

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

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

	2014
U.S. and international equity securities	21%
Fixed income securities	14
Hedge funds and private equity capital	56
Real estate and community development	<u>9</u>
Total	<u>100%</u>

BENEFICIAL INTEREST IN TRUSTS – OTHER TRUSTEES

The Foundation has been notified of thirteen trusts held by other trustees where the remainder interest will irrevocably benefit the University. In addition, the Foundation has been notified of two charitable lead unitrusts held by other trustees where annual payments are received by the Foundation. The Foundation values these assets by projecting the value of the trust assets to future periods and then discounting the anticipated cash flows at a rate reflective of the credit risk involved. Beneficial interest in trusts held by other trustees amounted to approximately \$9,495,000 as of June 30, 2014.



Division of Administration and Finance

PO Box 210620

Cincinnati, OH 45221-0620

513-556-2413

uc.edu/af