University of Cincinnati

A Component Unit of the State of Ohio

Financial Statement as of and for the
Year Ended June 30, 2012 and
Independent Auditors' Report

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Independent Auditors' Report on Financial Statements

Board of Trustees
University of Cincinnati
Cincinnati, Ohio

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, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the University's management. 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. Those financial statements were audited by other auditors whose report 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 such other auditor.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the 2012 financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 2 and 5, in 2012 the University changed its method of accounting for endowment investments held by external trustees, certain pooled investments and pledges of the University of Cincinnati Foundation, and recorded a change in reporting entity, by retroactively restating prior years' financial statements.

We also audited the adjustments described in Notes 1 and 2 that were applied to restate the University's net assets as of July 1, 2011. In our opinion, such adjustments were appropriate and have been properly applied.

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

October 15, 2012

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") for the year ended June 30, 2012, with comparative information for the year ended June 30, 2011. 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. UC Physicians, Inc. (UCP) was reported as a component unit in the prior two fiscal years. Changes to the organization during fiscal year 2012 have resulted in UCP no longer meeting the standards to be included as a component unit. 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 was founded 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 approximately 42,000 students and 4,400 faculty members on three campuses. 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 offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 14 colleges. University campuses include Uptown Campus, UC Clermont, and UC Blue Ash. The University, in total, employs approximately 14,000 people, making it one of the largest employers in the Cincinnati region.

The Princeton Review in its 2012 edition listed the University as one of "The Best 376 Colleges" and among the nation's best "green" schools – leading in environmental practices and in preparing the next generation of green professionals. The University is also classified as a "very high" research university by the Carnegie Commission and ranked as one of America's top public research universities. The University is an institution with a rich history in discovery and innovation. With 11 Ohio Eminent Scholars and $418 million in research funding awarded to the University and its affiliates, the University is truly an innovative leader in Ohio and beyond. From the organic form at the lab bench to the lines on a drafting table, research at the University assumes many shapes, sizes, and even sounds. Discovery at the University is wide-ranging, from basic, clinical and translational research, to creative works and performance.

Financial Highlights

Unrestricted net assets increased from $54 million to $100 million, an increase of $46 million, a result of increases in operating revenues coupled with containment of operating expenses. Cash, cash equivalents, and investments (current and noncurrent), excluding endowment investments and other long-term investments, were $426 million and $427 million in 2012 and 2011, respectively. Of those funds, cash available for operations increased from $298 million in 2011 to $342 million in 2012, an increase of $44 million. The University's working capital is primarily invested in relatively short duration, liquid assets.

The University's long-term bond rating was upgraded in 2012 by both Moody's and Standard & Poor's. Moody's increased their rating from A1 (positive outlook) to Aa3 (stable outlook). Standard & Poor's increased their rating from A+ (stable outlook) to AA- (stable outlook). The ratings increase came after their review of UC's financial activities, strategic plans, and future prospects.

Demand for a University of Cincinnati education remains strong as evidenced by enrollment growth of 1,064 students to 42,421 in autumn 2011, an increase of 2.6%. Of the first-year students enrolled in autumn 2010, 85% returned to the University in autumn 2011. The six-year graduation rate was 58% in 2011. The University's student-centered approach resulted in student tuition and fees (net of scholarship allowances and bad debt expense) increasing by $41 million to $381 million for 2012.

Operating revenues continue to increase. In 2012 and 2011, operating revenues totaled $741 million and $710 million, respectively; reflecting an increase of $31 million in 2012. Conversely, operating expenses decreased by $7 million to $991 million in 2012.

Net nonoperating revenues declined significantly from $508 million to $250 million, a decrease of $258 million. The decrease was mainly due to a $30 million decline in State operating support, a $26 million reduction in net investment income, and a $194 million decrease in the change in the fair value of investments. Reductions in net investment income and decreases in the fair value of investments were related to the slowdown in both the national and global financial markets.

Using the Financial Statements

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

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

These financial statements are prepared in accordance with Governmental Accounting Standards Board principles, which establish standards for external financial reporting for public colleges and universities.

This discussion and analysis does not include a specific narrative on the Statement of Cash Flows. Major sources and uses of cash by the institution for the fiscal year are addressed elsewhere in the Management's Discussion and Analysis including investments, capital assets, debt, revenues, and expenses.

Beneficial Interests in Irrevocable External Trusts

The University is the beneficiary of numerous trusts held and controlled by external trustees. Income from those trusts is received annually and will continue to be received in perpetuity. These external trusts are irrevocable, and the University has a vested beneficial interest in the net income payable by the trusts. External trusts have been recorded on the University's financial statements since the early 1980's. The University's position to previously include external trusts as endowment investments was supported by a clean opinion from its external auditors.

As discussed in Note 2, the University has restated its beginning of the year net assets to exclude the fair value of these endowed trusts (see below - Prior Period Restatement). While the income generated and distributed from these trusts is not expected to change significantly in future years, the University revised its policy on recording the interests in these perpetual trusts. There have been no changes to the terms of the agreements, including the rights of the University to receive distributions from the trusts. The market value of the external trustee assets totaled $231 million and $226 million as of June 30, 2012 and June 30, 2011, respectively. The University received income from these trusts of $7.4 million and $7.3 million in 2012 and 2011, respectively.

Prior Period Restatement

Certain components of the beginning of the year net assets have been restated for capital pledge receivables, endowment investments related to the Foundation's share of the Endowment Investment Pool A, and other endowed trustee investments for $11,730,000, $212,474,000, and $225,627,000; respectively. These changes have been reflected as adjustments applicable to prior years on the Statement of Revenues, Expenses and Changes in Net Assets.

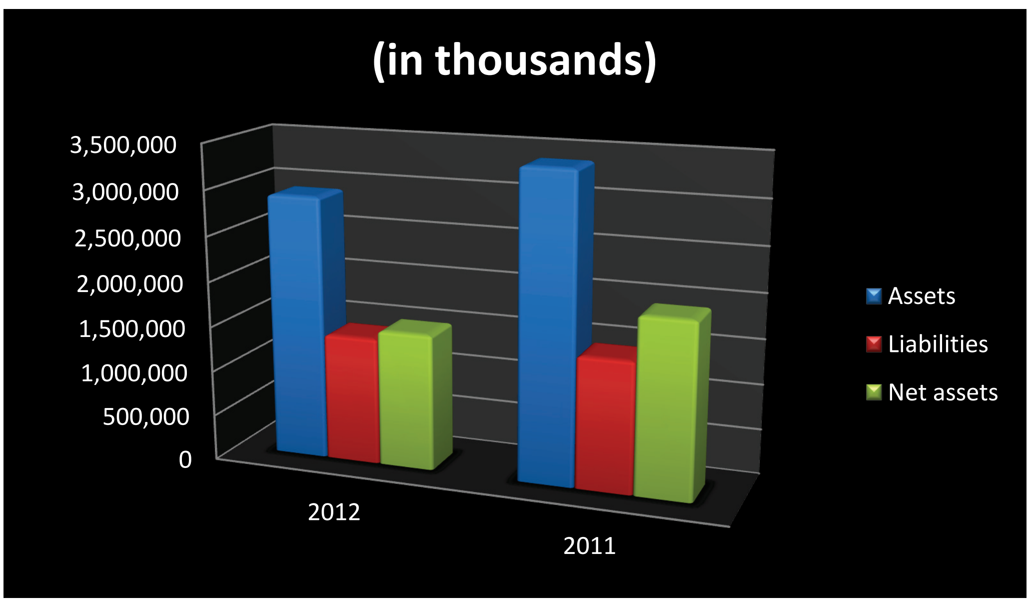
Statement of Net Assets

The Statement of Net Assets reflects the total assets, liabilities, and net assets (equity) of the University as of June 30, 2012, with comparative information as of June 30, 2011. 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 by major gifts. A summary of the University's assets, liabilities, and net assets at June 30, 2012, and 2011 follows:

Summary Statements of Net Assets

(in thousands)	2012	2011
Current assets	$370,231	$337,351
Noncurrent assets		
Investments	120,021	159,878
Endowment investments	507,434	973,393
Other assets & long-term investments	424,447	421,603
Capital assets, net of depreciation	1,460,382	1,444,367
Other	29,269	43,969
Total assets	2,911,784	3,380,561
Current liabilities	324,635	318,721
Noncurrent liabilities	1,081,987	1,128,371
Total liabilities	1,406,622	1,447,092
Net assets	$1,505,162	$1,933,469

The following graph illustrates the University's total assets, liabilities, and net assets:



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 pledges receivable. Current assets increased by $33 million in 2012. The increase in current assets during 2012 was a result of continued improved operations.

Noncurrent Assets

Investments

Investments at June 30, 2012, totaled $120 million, a decrease of $40 million from June 30, 2011. The decrease in investments is due to a swing between current and noncurrent assets. Funds are invested in the University's temporary investment pool which had a weighted average maturity of 1.3 years at June 30, 2012. Investments with a maturity date of more than one year from the date of purchase are classified as noncurrent.

Endowment Investments

The University's endowment funds consist of both permanent endowments and funds functioning as endowment (quasi-endowments and term endowments). Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, 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 important programs and activities.

While endowment investments on the Statement of Net Assets total $507 million at June 30, 2012, endowment investments also include a $17 million loan to UHCURC. The loan receivable was eliminated from the University's Statement of Net Assets when UHCURC's financial results were blended with the University's. Endowment investments including the loan to UHCURC total $524 million.

Pool A, the University's principal investment pool, decreased in value during 2012. In 2012 and 2011, Pool A totaled $704 million (includes $210 million of which the Foundation is the trustee) and $733 million, respectively; reflecting a decrease of $29 million (4%) in 2012. The decrease is net of the 5% endowment spending distribution and fundraising fee allocation. Excluding Neighborhood Development Corporation loans of $61 million, Pool A consists of approximately 45% public equities, 17% public fixed income, and 38% other investments, including private equity, real estate, and hedge funds. The balance of the endowment outside of Pool A is invested through separately managed accounts.

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 5% of the three-year quarterly moving-average market value of assets in the investment pool.

Other Assets and Long-term Investments

Other assets and long-term investments primarily represent the University's interest in UC Health valued at $421 million at June 30, 2012 and 2011. 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 10, Investment in UC Health.

Capital Assets

The University Campus Master Plan 2000 has driven $1.9 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, additional student spaces for an enhanced quality of life, and new spaces to address the enrollment growth the University has been privileged to experience in the recent past. 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 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.

UC 2019'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 a more highly performing building that focuses 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.

Capital asset additions are funded using a combination of state capital appropriations, gifts, debt, federal grants, and University funds. Capital additions totaled $121 million in 2012 and $167 million in 2011. Depreciation expense totaled $100 million in both 2012 and 2011. Capital additions are primarily comprised of capital projects that were either completed during the fiscal year or are in either the construction or design phase at June 30 of each fiscal year.

Significant capital projects in design or construction

- DAAP Facade Improvement – $20 million
- Medical Sciences Building Rehabilitation, Phases 2, 3, & 4 – $195 million
- Morgens Residence Hall Renovation – $30 million
- Rieveschl 600/700 Level Teaching Lab Renovation – $14 million
- Rieveschl 400 Level Teaching Lab Renovation - $15 million
- Primary Electric Substation - $7.8 million
- Roof replacements
- Facade preservation

Planning related to the physical campus is equally concentrated and in full support of the University's academic mission. Plans will unfold in the context of a comprehensive physical, financial, and academic picture.

Liabilities

Debt

Total debt representing bonds, notes, capital leases, and certificates of participation was $1.153 billion at June 30, 2012; a decrease of $33 million from $1.186 billion at June 30, 2011.

During 2012, the University refunded debt on three occasions to rollover non-permanent debt and to refund fixed rate maturities to reduce future debt service. Total net economic gains to be realized from the refundings are $13.1 million over 20 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 2012B 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 2012, 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 2013 to determine the optimal refinancing method for the Series 2012B BANS and the outstanding swap. The fair value of the swap at June 30, 2012, was a negative $5.3 million and is reflected as an interest rate swap liability in the noncurrent liability section of the Statements of Net Assets.

The ratings on University bonds and certificates of participation (COPS) were upgraded by Standard & Poor's (S&P) and Moody's in December 2011. S&P upgraded the rating on University bonds from A+ to AA-; the rating on the University's COPS was upgraded from A to A+; and the note rating of SP-1+ was maintained. S&P's outlook for the University remained at stable during 2011 and 2012. Moody's rating for bonds was upgraded from A1 to Aa3; the rating for the COPS was upgraded from A2 to A1; and the note rating of MIG1 was maintained. Moody's outlook for the University was positive during 2011 and was changed to stable during 2012 based on the upgraded bond rating.

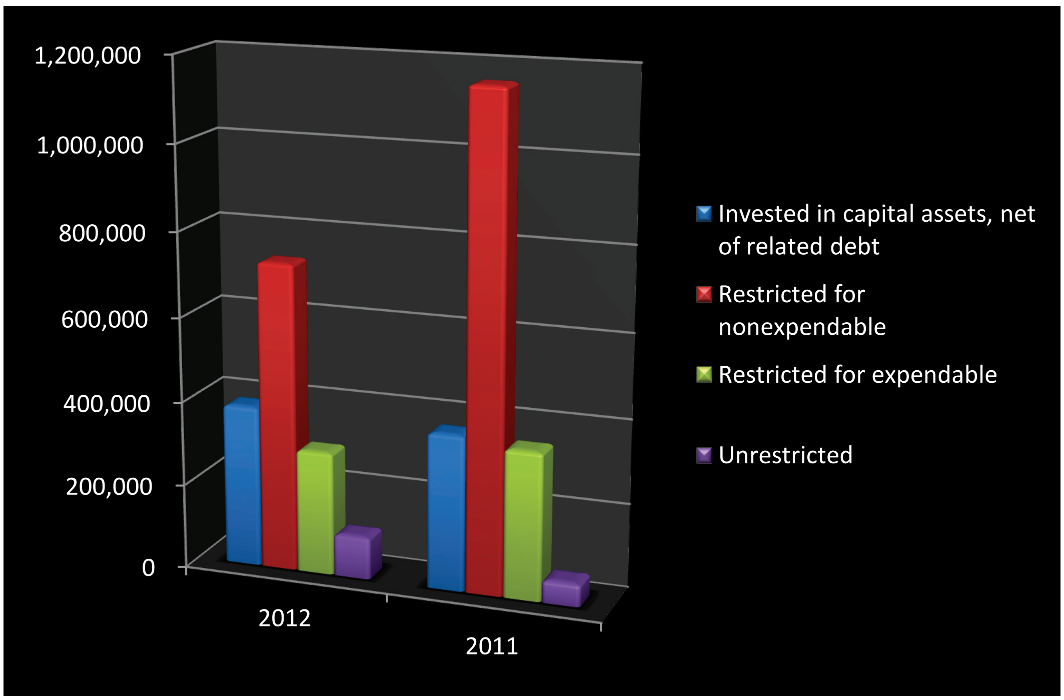
The University continues to invest in its expansion of research and educational facilities beyond the level provided by state capital appropriations through the issuance of debt. The extensive investment in these facilities is necessary to attract and maintain high quality students, faculty, and research funding in an increasingly competitive environment. The University's future debt financing activity will focus on Academic Health Center projects, renovations of existing facilities and building systems, and the strategic management of the debt portfolio.

Net Assets

The four net asset categories represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2012 and 2011 are summarized below.

(in thousands)	2012	2011
Invested in capital assets, net of related debt	$ 382,974	$ 368,996
Restricted		
Nonexpendable	729,084	1,159,623
Expendable	292,969	350,918
Unrestricted	100,135	53,932
Total net assets	$ 1,505,162	$ 1,933,469

Components of the University's Net Assets



Capital assets, net of depreciation and related debt, represent 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 2012, net assets invested in capital assets, net of related debt, increased by $14 million. The change was a result of depreciation expense totaling $100 million offset by additions of $121 million in 2012 and further offset by related debt reductions.

Restricted nonexpendable net assets include, as a primary component, the University's permanently invested endowment funds. It also includes the University's investment in UC Health. The $430 million decrease in restricted nonexpendable net assets in 2012 is a result of eliminating both endowed donor funds held in external trusts and reporting the Foundation's portion of Pool A in the Foundation column.

Restricted expendable net assets are subject to externally imposed provisions governing their use. This category of net assets mainly includes restricted quasi-endowment funds, unspent expendable endowment funds (available through the endowment spending policy), and gifts. Quasi-endowment funds totaled $211 million and $224 million in 2012 and 2011 respectively. Unspent expendable endowment funds totaled $59 million in 2012 and $61 million in 2011.

Unrestricted net assets have improved significantly over the past several years. During 2012, unrestricted net assets increased by $46 million to $100 million. Improvements in unrestricted net assets are a result of the implementation of targeted financial strategies, greater accountability, and an integrated budget planning process.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The **Statement of Revenues, Expenses and Changes in Net Assets** 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 assets for the years ended June 30, 2012 and 2011.

SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	2012	2011
Operating revenues	$741,481	$710,093
Operating expenses	991,420	998,519
Operating loss	(249,939)	(288,426)
Nonoperating revenues (expenses)		
State appropriations	181,590	212,066
Federal and state grants (nonexchange)	44,681	48,728
Gifts	43,905	41,372
Investment income and increase in fair value of investments	27,233	248,134
Other net nonoperating expenses	(47,752)	(42,405)
Net nonoperating revenues (expenses)	249,657	507,895
Income (loss) before other revenues, expenses, gains, or losses	(282)	219,469
Capital appropriations, gifts, and grants	21,109	19,415
Additions to permanent endowments	697	21,823
Total other revenues	21,806	41,238
Increase in net assets	21,524	260,707
Net assets – beginning of year as previously reported	1,933,469	1,684,250
Adjustments applicable to prior years	(449,831)	
Change in University organizations – beginning of year		(11,488)
Net assets, end of year	$1,505,162	$1,933,469

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 $250 million does not account for these important revenue sources. Adding these three revenue sources, which total $270 million for the fiscal year, offsets the operating loss. This provides a more accurate view of the University's operating results.

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)	2012	2011
Operating revenues		
Student tuition and fees, net	$381,213	$340,150
Federal, state, & local grants and contracts	166,347	182,689
Nongovernmental grants and contracts	20,350	20,984
Sales & services of educational departments	63,145	62,943
Auxiliary enterprises, net	100,144	95,095
Other	10,282	8,232
Total operating revenues	741,481	710,093
Nonoperating revenues		
State appropriations	181,590	212,066
Federal and state grants (nonexchange)	44,681	48,728
Gifts	43,905	41,372
Investment income	24,932	52,242
Increase in fair value of investments	2,301	195,892
Other	(1,439)	4,631
Other revenues		
Capital appropriations, grants, and gifts	21,109	19,415
Additions to permanent endowments	697	21,823
Total nonoperating and other revenues	317,776	596,169
Total revenues	$1,059,257	$1,306,262

Operating Revenues

Student tuition and fees are the primary source of revenue for the University. In 2012, tuition and fee revenue increased by $41 million. Undergraduate tuition and fees increased by 3.5% in 2012. In 2012, tuition and fees for professional programs increased an average of 6.0%. Professional programs include Law, Medicine, and PharmD. In 2012, tuition and fees for graduate programs increased by 3.5%.

The University has a high level of commitment to research. Revenue from federal, state, and local grants and contracts was $166 million and $183 million in 2012 and 2011, respectively; a decrease of $17 million in 2012. The decrease in 2012 was due to an overall reduction in grant funds available for research. Annual research revenue as a percent of total operating revenue accounted for 22% of revenue in 2012.

Total operating revenues for the institution increased by $31 million in 2012. Increases for 2012 were a result of increased enrollment and student retention and increases in student tuition and fee rates.

Nonoperating Revenues

State operating appropriations declined from $212 million in 2011 to $182 million in 2012, a decrease of $30 million; a result of a $29 million reduction in State Fiscal Stabilization Funds (SFSF) provided through Federal stimulus funds. While 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.

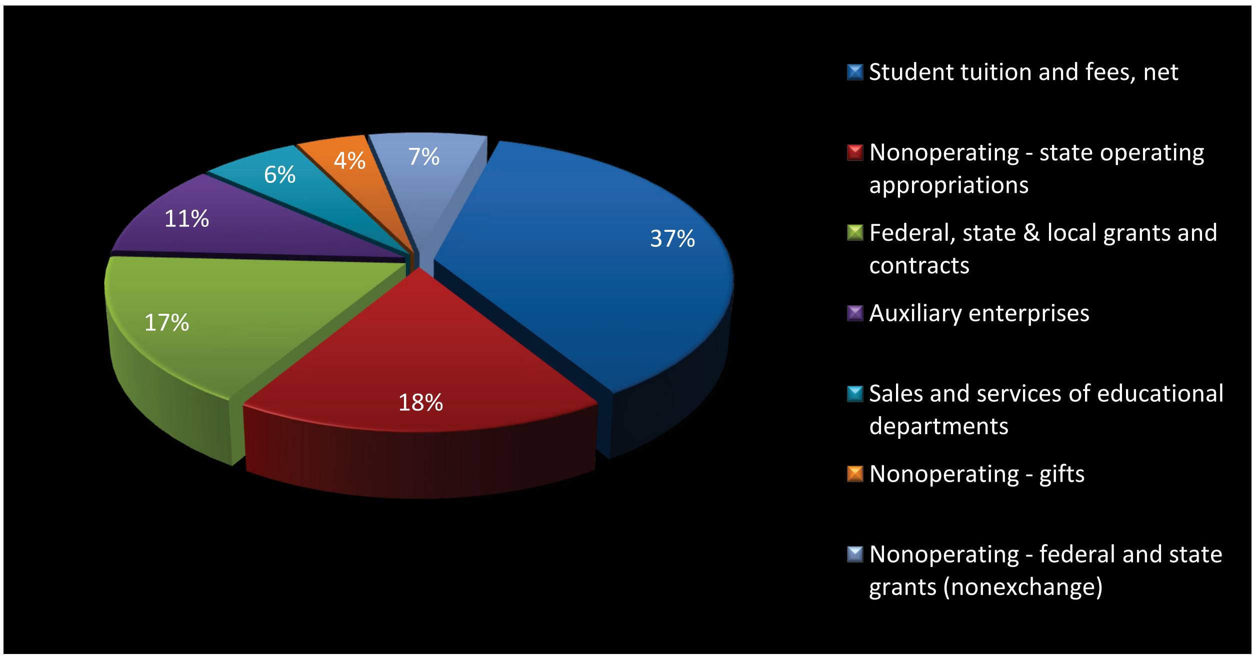
Revenues from federal and state grants (nonexchange) provide for the recovery of direct and indirect costs. Such revenues decreased by $4 million in 2012. In a time of heightened competitiveness, especially for federal research funding, the University continues to focus on maintaining its research base.

The results of fundraising efforts have been an important component of financial resources. Expendable gifts to the University totaled $44 million and $41 million in 2012 and 2011, respectively. The $3 million increase in gift revenue was a direct result of the Foundation's fundraising efforts toward achieving the University's $1 billion gift campaign, Proudly Cincinnati that spans 2005 – 2013.

The University's investment income totaled $25 million and $52 million in 2012 and 2011 respectively, a decrease of $27 million. Investment income includes both endowment income and temporary investment pool income. The overall decline in investment income for 2012 is attributable to a reduction in interest rates and endowment earnings.

The University's increase in fair value of investments has fluctuated dramatically over the past several years. Increases totaled $2 million and $196 million in 2012 and 2011, respectively. Investments during 2012 include both endowment and operating cash investments. The $194 million decrease in 2012 resulted from a decline in global equity markets and the University maintaining its investment value at $421 million for UC Health (see note 10).

Below is a chart listing revenues by source including revenues used for operating activities and those classified as nonoperating such as state operating appropriations, federal and state grants (nonexchange), and gifts. As noted earlier, GASB requires state appropriations, federal and state grants (nonexchange), and gifts to be classified as nonoperating revenues.



EXPENSES

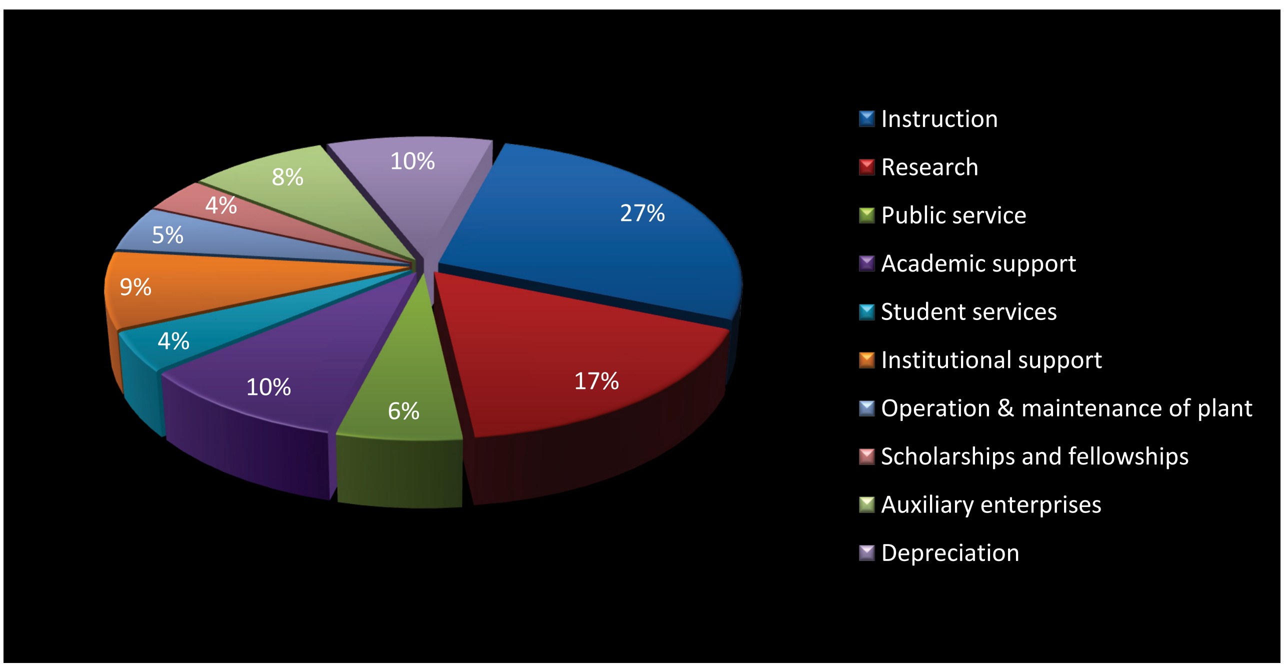
The University continues to employ cost containment initiatives to control expenses while investing in research, academic & institutional support, and students through scholarships and fellowships.

SUMMARY OF EXPENSE

(in thousands)	2012	2011
Operating expenses		
Instruction	$268,935	$277,304
Research	167,694	178,565
Public service	57,708	55,356
Academic support and student services	140,701	130,353
Institutional support	84,275	79,409
Operation & maintenance of plant	49,854	57,013
Scholarships and fellowships	38,104	40,659
Auxiliary enterprises	83,992	80,071
Depreciation	100,157	99,789
Total operating expenses	991,420	998,519
Nonoperating expenses		
Interest on capital asset related debt	44,218	45,571
Other nonoperating expenses	2,095	1,465
Total nonoperating expenses	46,313	47,036
Total University expenses	$1,037,733	$1,045,555

Total University expenses decreased by $8 million in 2012. The reduction in 2012 was attributable to various increases and decreases within operating expenses. Expenses related to instruction, research, operation & maintenance of plant, and scholarships and fellowships declined. Expenses related to public service, academic support and student services, institutional support, and auxiliary enterprises increased.

Below is a chart reflecting operating expenses by category and percentage of total operating expenses.



ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

As the University approaches its 200th anniversary in 2019, a comprehensive action plan referred to as the Academic Master Plan (AMP) was rolled out in May 2012. The plan details the steps necessary to reach many of the UC2019 ▶ Accelerating Our Transformation aspirations and requires an initial investment of about $10 million toward long-term strategic goals set for completion in UC's bicentennial year, 2019. This initial investment in the UC2019 ▶ Academic Master Plan is coming from the University's academic budget, and involves both central and collegiate investments. The AMP is one component of the University's overall strategic plan, UC2019 ▶. The AMP consists of 180 action steps and 120 sub-action steps pertaining to nine operational principles: learning, discovery, community, economy, sustainability, global engagement, diversity, mission-based health care, and collaboration. Total investments for the AMP between now and 2019 are expected to exceed $50 million.

Milestones for the comprehensive UC2019 ▶ strategic plan include becoming more competitive on measurable metrics with appropriate benchmark institutions. The University is now measuring itself against the premier group known as the Association of American Universities and against the Top American Research Universities as defined in the "Lombardi report." The University is also focused toward becoming a truly global University, which will allow the University to achieve greater success in worldwide education and outreach. Annually, key targeted goals are measured in the President's report card. The University has made notable improvements in most areas as documented below:

- First-year retention rates increased from 80% in 2006 to 86% in 2012
- Six-year graduation rates increased from 52% in 2006 to 62% in 2012
- Total National Merit Scholars enrolled increased from 89 in 2006 to 169 in 2012
- Average ACT scores of entering Uptown Campus class increased from 24.0 in 2006 to 25.1 in 2012
- Funding from biomedical research grants and contracts (includes affiliates) increased from $275 million in 2009 to $308 million in 2011
- International student enrollment percentage increased from 5.3% in 2006 to 6.2% in 2012

Institutional liquidity continues to improve from 2006 when the Board of Trustees instituted an operating cash policy that required minimum and average daily cash requirements of no less than 17% and 25% of annual operating budget expenditures and transfers, respectively. Minimum daily cash requirements for fiscal year 2013 are $188 million while requirements for average daily cash are $276 million. The University has been consistently in compliance with the policy.

The University's share of state operating appropriations declined by $30 million in 2012 to a level of $182 million. The decline was mainly due to the elimination of $29 million of American Recovery and Reinvestment Act (ARRA) funding. State operating appropriations for 2013 will remain stable at $182 million. In 2012, the State of Ohio experienced a turnaround in its finances and closed its books with a $370 million cash balance. About 60% of the surplus was added to the rainy day fund, boosting it to $482 million.

State capital appropriation revenue received by the University will increase in 2013 due to the passing of the State of Ohio's 2013-2014 biannual capital appropriations bill. The University has been appropriated $35 million from the State of which $29 million has been identified for continued renovation of the Medical Sciences Building, $3 million to replace the roof on the Health Professions Building, and $3 million for branch campus renovations.

To support the State's Strategic Plan for Higher Education, all 17 of Ohio's colleges and universities that had academic calendars based on quarters were required to convert their academic calendars based on semesters. It has been 48 years since the University operated under semesters. Semester conversion took place in August 2012 and required a multifaceted approach which has had a significant impact on all aspects of the University. Enrollment declined by 1% when comparing the autumn 2011 quarter term to the autumn 2012 semester term totaling 41,970 students. The enrollment decline was in part due to students accelerating their coursework to graduate prior to the conversion to semesters. With all institutions on the same academic calendar, Ohio's students will now find it easier to transfer between institutions.

The "Proudly Cincinnati" $1 billion gift campaign is on target to reach its eight-year fundraising goal that will end on June 30, 2013. The campaign is the largest in the University's 191-year history. The campaign has raised a total of $928 million in gift and endowment contributions, non-government research funding, private practice contributions to the Medical College, and gifts-in-kind through June 30, 2012. Campaign priorities include student scholarships, fellowships to encourage advanced scholarship and research, endowed appointments for top-notch faculty, academic program support, and campus enhancements. Throughout the campaign, the Foundation expects to actively engage more than 500 volunteers. Regional committees are also focusing on cultivating relationships with alumni and friends. Private gifts will continue to be a critically important financial resource and a significant factor in the growth of instruction, research, and services.

The University is committed to continuing its strategic vision while continuing to build upon its financial strength. On August 21, Santa Jeremy Ono, PhD, was appointed Interim President.   Prior to becoming Interim President, Dr. Ono served for two years as the Senior Vice President for Academic Affairs and Provost. As Provost, he led the development of the Academic Master Plan which is aligned to the University's strategic plan, UC2019 ▶ – Accelerating Our Transformation.   The University community continues to build toward its bicentennial celebration.

University of Cincinnati
(A Component Unit of the State of Ohio)
Statement of Net Assets (in thousands)
as of June 30, 2012

	University 2012	The University of Cincinnati Foundation 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 112,016	$ 3,093
Investments	194,050	3,650
Accounts and pledges receivable, net	46,044	20,873
Inventories	2,272	
Deposits with bond trustees	7,512	
Notes receivable, net	6,459	
Other assets	1,878	9,772
Total current assets	370,231	37,388
Noncurrent assets		
Investments	120,021	
Accounts and pledges receivable, net	3,648	33,015
Deposits with bond trustees	187	
Endowment investments	507,434	250,068
Notes receivable, net	25,434	
Other assets and long-term investments	424,447	
Capital assets not being depreciated	214,510	
Capital assets being depreciated, net	1,245,872	688
Total noncurrent assets	2,541,553	283,771
Total assets	2,911,784	321,159
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	163,181	1,815
Advances	31,428	
Long-term debt - current portion	130,026	
Total current liabilities	324,635	1,815
Noncurrent liabilities		
Deposits	7,560	3,972
Accrued liabilities	21,244	6,881
Refundable advances for federal loans	25,168	
Long-term debt	1,022,752	
Interest rate swap liability	5,263	
Total noncurrent liabilities	1,081,987	10,853
Total liabilities	1,406,622	12,668
NET ASSETS		
Invested in capital assets, net of related debt	382,974	688
Restricted for:		
Nonexpendable	729,084	250,613
Expendable	292,969	82,554
Unrestricted	100,135	(25,364)
Total net assets	$ 1,505,162	$ 308,491

See accompanying notes to financial statements

University of Cincinnati
(A Component Unit of the State of Ohio)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
For the Year Ended June 30, 2012

	University 2012	The University of Cincinnati Foundation 2012
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $96,212 and bad debt expense of $2,194)	$ 381,213	$
Federal grants and contracts	156,103	
State and local grants and contracts	10,244	
Nongovernmental grants and contracts	20,350	
Sales and services	63,145	
Auxiliary enterprises		
Residential life	40,228	
Athletics	23,522	
Other auxiliary enterprises	36,394	
Other operating revenues	10,282	12,494
Total operating revenues	741,481	12,494
EXPENSES		
Operating Expenses		
Instruction	268,935	
Research	167,694	
Public service	57,708	
Academic support	97,441	
Student services	43,260	
Institutional support	84,275	17,522
Operation & maintenance of plant	49,854	
Scholarships and fellowships	38,104	
Auxiliary enterprises	83,992	
Depreciation	100,157	256
Total operating expenses	991,420	17,778
Operating loss	(249,939)	(5,284)
NONOPERATING REVENUES (EXPENSES)		
State operating appropriations	181,590	
Federal and state grants (nonexchange)	44,681	
Gifts, including $37,524 from the University Foundation	43,905	40,786
Investment income, net	24,932	9,894
Increase (decrease) in fair value of investments	2,301	(6,664)
Interest on capital asset-related debt	(44,218)	
Loss on disposal of assets	(2,095)	
Payments to University of Cincinnati		(37,524)
Other nonoperating expenses	(1,439)	(3,876)
Net nonoperating revenues (expenses)	249,657	2,616
Loss before other revenues, expenses, gains or losses	(282)	(2,668)
State capital appropriations	10,757	
Capital grants and gifts	10,352	
Additions to permanent endowments	697	
Total other revenues	21,806	-
Increase (decrease) in net assets	21,524	(2,668)
NET ASSETS		
Net assets - beginning of year as previously reported	1,933,469	179,656
Adjustments applicable to prior years	(449,831)	245,945
Change in University organizations		(114,442)
Net assets, end of year	$ 1,505,162	$ 308,491

See accompanying notes to financial statements

University of Cincinnati
(A Component Unit of the State of Ohio)
Statement of Cash Flows (in thousands)
For the Year Ended June 30, 2012

		2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	376,539
Grants and contracts		229,591
Sales and services of educational departments and auxiliary enterprises		163,475
Expenditures and other deductions:		
Compensation		(612,241)
Payments for materials, services and other		(325,964)
Loans issued		(6,507)
Loan principal collected		5,339
Interest on loans receivable		737
Other revenue		9,931
Cash used for operating activities		(159,100)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		181,590
Federal and state grants (non-exchange)		44,681
Gifts for other than capital purposes (including additions to permanent endowments)		47,557
Cash from noncapital financing activities		273,828
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State appropriations - capital		15,109
Private gifts for capital purposes		3,793
Grants for capital purposes		5,420
Other		8,447
Proceeds from capital debt		231,115
Purchases of capital assets		(117,578)
Principal paid on capital debt and leases		(263,936)
Interest paid on capital debt and leases		(52,717)
Cash used for capital financing activities		(170,347)
CASH FLOWS FROM INVESTING ACTIVITIES		
Endowment income		19,685
Income from deposits with trustees		315
Other endowment expenditures		(2,436)
Purchase of investments		(1,297,038)
Sale of investments		1,363,205
Investment income		3,749
Cash from investing activities		87,480
NET INCREASE IN CASH AND CASH EQUIVALENTS		31,861
Cash and cash equivalents - beginning of the year		80,155
Cash and cash equivalents - end of the year	$	112,016

See accompanying notes to financial statements

University of Cincinnati
(A Component Unit of the State of Ohio)
Statement of Cash Flows (in thousands)
For the Year Ended June 30, 2012
(continued)

		2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss		(249,939)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense		100,157
Changes in assets and liabilities:		
Receivables, net		4,515
Inventories		(133)
Other assets		(1,297)
Accounts payable and accrued liabilities		(11,812)
Deferred revenue		(515)
Compensated absences		(1,242)
Deposits		1,166
Net cash used for operating activities	$	(159,100)
Noncash transactions		
Accrued liabilities for property, plant and equipment	$	17,709
Gifts of moveable equipment		1,139

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

The University of Cincinnati (the University) was founded in 1819 with the first charter granted by the State of Ohio in 1870. The University, formerly city owned, became a State University on July 1, 1977. 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, 2012, no provision for income taxes has been made.

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

- The University of Cincinnati Foundation (Foundation), described more fully in Note 14, 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 the Governmental Accounting Standards Board (GASB) on the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

- 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 GASB and is included in the University's Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The University has elected not to apply those Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

In June 2010, GASB issued a statement to amend previous statements related to the replacement of counterparties in a derivatives transaction (such as an interest-rate swap). In general, it allows governments to continue to apply hedge fund accounting rules to these transactions as long as they meet certain conditions. The requirements of this statement are effective for periods beginning after June 15, 2011. There was no significant impact on the financial statements related to the implementation of this statement.

In November, 2010, GASB issued a statement to amend previous statements related to the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. The requirements of this statement are effective for periods beginning after June 15, 2012. The University elected early adoption of this statement for the year ended June 30, 2011. There was no significant impact on the financial statements related to the implementation of this statement.

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

Invested in Capital Assets Net of Related Debt—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted for—

Nonexpendable restricted net assets are subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Expendable restricted net assets are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Unrestricted—Net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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 unrestricted net assets are designated for academic and research programs and initiatives and for capital programs.

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The University reports as an entity engaged in business-type activities because its operations are financed, in part, by fees charged to external parties for goods and services provided.

Accounts Receivable consists of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is recorded net of estimated uncollectible amounts.

Loans to Students—the University makes loans to students under various federal and other loan programs. Such loans receivable are included in notes receivable on the Statement of Net Assets and recorded net of estimated uncollectible amounts.

Investments in marketable securities (other than the University's alternative investments) are carried at fair value as established by the major securities markets (quoted market prices). Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported as nonoperating revenues (expenses).

The University's financial statements include alternative investments, such as limited partnerships, that are not publicly traded. Certain of these alternative investments are carried at estimated fair value as of March 31, 2012, as adjusted by cash receipts, cash disbursements and securities distributions through June 30, 2012, at a total estimated fair value of $76 million. In addition, the University also has alternative investments in investment funds that are not themselves publicly traded and thus do not have publicly reported market values, but whose underlying assets consist of publicly traded investments for which fair values are established by the major securities markets. Such alternative investments are carried at fair value of $136 million at June 30, 2012. The University believes that the total carrying amount of its alternative investments valued at $339 million at June 30, 2012 is a reasonable estimate of fair value. The University's outstanding commitment to alternative investments is $70 million as of June 30, 2012.

The University's investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect the investment amounts reported in the accompanying Statement of Net Assets.

Inventories are held primarily by the Hoxworth Blood Center and the University's utilities service center. Inventory is stated at the lower of cost or net realizable market value. The moving-average basis for all inventories is used to determine inventory cost.

Capital Assets—Land, land improvements, infrastructure, buildings and equipment 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. Land, collections of works of art and historical treasures are capitalized but not depreciated. 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.

Gift Pledges—The Foundation receives pledges and bequests of financial support from corporations, foundations and individuals for the benefit of the University.

Advances include receipts relating to tuition, student fees and athletic events received in advance of services to be provided. Advances also includes 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 into revenue when these services are provided over the coming fiscal year.

Compensated Absences includes liabilities related to the vacation and sick leave accruals. University employees earn vacation and sick leave on a monthly basis.

Vacation benefits may be accrued up to a maximum of three years' credit, and earned but unused days are payable upon termination. The liability for accrued vacation approximated $35,974,000 as of June 30, 2012.

Sick leave may be accrued 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. The sick leave liability as of June 30, 2012 approximated $23,088,000.

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 Fees are presented net of scholarship and fellowship allowances of $96,212,000 in 2012 and a bad debt provision of $2,194,000 in 2012. Payments made directly to students are presented as scholarship and fellowship expenses.

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 Assets 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 operating appropriations, non-endowment 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 and liabilities 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.

Prior Period Restatement—Certain components of the beginning of the year net assets have been restated for pledge receivables, endowment investments related to the Foundation's share of the Endowment Investment Pool A, and other trustee investments for $11,730,000, $212,474,000 and $225,627,000, respectively. These changes have been reflected as adjustments applicable to prior years on the Statement of Revenues, Expenses and Changes in Net Assets.

2. Cash and Investments

Summary—The University maintains centralized management for substantially all of its cash and investments. With the exception of insurance reserves and other endowment investments which require separate management by donor stipulation, the University invests its operating cash in relatively short-duration assets in the Temporary Investment Pool. A majority of the assets of the University's endowment assets are invested in the Endowment Investment Pool A.

Distributions are made from the University endowment to the University entities that benefit from those funds. The endowment spending policy provides for an annual distribution of 5% of the twelve-quarter moving-average market value of endowment units.

Effective June 1, 2009 Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective and 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.

Authorizations—The Temporary Investment Pool is invested principally in investment-grade money-market and fixed-income securities. Balances in the Temporary Investment Pool are primarily for operating expenses or for funding capital projects.

Investment policies are governed and authorized by University rules. For endowment investments the approved asset mix may range from 85% variable investments and 15% fixed income investments to 15% variable investments and 85% fixed income investments, at any one time, at the discretion of the University's investment committee.

The University has an established set of investment guidelines related to targeted asset allocation and allowable ranges for alternative investments. For alternative investment categories, as defined by investment practitioners, the Investment Committee target allocations are: Private Real Estate 2%, Private Equity including Natural Resources 15.5%, and Hedge Funds 20%. Maximum allowable holdings for these three categories are 2%, 15.5% and 25%, respectively.

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.

Off-Balance-Sheet Risk— The University's investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market movements, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. 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 recognized in the Statement of Net Assets and is not represented by the contract or notional amounts of the instruments.

Cash and Cash Equivalents— The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2012, the carrying amount of the University's cash and cash equivalents for all funds is $112,016,000 as compared to bank balances of $119,210,000. The difference between the carrying amount and the bank balances is caused primarily by deposits in transit and outstanding checks and the Foundation's share of the Endowment Investment Pool A cash and cash equivalents.

Of the University's bank balances, $3,262,000 is covered by federal depository insurance and money market funds account for $115,948,000.

Investments

The fair value of University investments at June 30 is (in thousands):

	2012
U.S. government, agency and treasury securities	$ 72,219
Municipal bonds and notes	53,498
Corporate notes and bonds	231,385
Corporate stocks	103,011
Mutual funds	241,040
Other securities	312,705
Real estate	12,635
Total investments – including UC Foundation share of Pool A	1,026,493
Less UC Foundation share of Pool A	204,988
Total investments	821,505
Less current investments	194,050
Total noncurrent investments	$ 627,455

Current investment detail (in thousands):

	2012
U.S. government, agency and treasury securities	$ 27,281
Corporate notes and bonds	127,147
Local mortgage secured loans and other	39,873
	194,301
Less UC Foundation share of Pool A	251
Total current investments	$ 194,050

Alternative investments of $339 million are included within mutual funds and other securities in the summary schedule of investments above (please refer to Note 1, Summary of Significant Accounting Policies, regarding valuation of alternative investments).

At June 30, 2012, other securities included $72,894,000 net of $20,060,000 of loan loss reserves, of loans made to certain nonprofit entities for the purpose of developing residential and commercial facilities on the borders of the campus. 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 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 flows projections for the projects and independent appraisals of the underlying undeveloped real estate. The change in loan loss reserves are reflected in nonoperating revenues (expenses), as a component of the increase in fair value of investments.

At June 30, 2012, the fair (market) value of land and other real estate held as investments was $12,635,000. 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 accurate. 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 of 2012.

The University has recorded the investments in the table above in the following categories: $314,281,000 is included in the temporary investment pool portfolio and $507,224,000 is included in endowment investments as reported on the Statement of Net Assets.

Beneficial Interest in Irrevocable External Trusts

The University is the beneficiary of numerous trusts held and controlled by external trustees. Income from those trusts is received annually and will continue to be received in perpetuity. These external trusts are irrevocable, and the University has a vested beneficial interest in the net income payable by the trusts. External trusts have been recorded on the University's financial statements since the early 1980's. The University's position to previously include external trusts as endowment investments was supported by a clean opinion from its external auditors.

The University has restated its beginning of the year net assets to exclude the fair value of these endowed trusts. While the income generated and distributed from these trusts is not expected to change significantly in future years, the University revised its policy on recording the interests in these perpetual trusts. There have been no changes to the terms of the agreements, including the rights of the University to receive distributions from the trusts.

The 2012 change to no longer recognize the external trusts on the Statement of Net Assets resulted in a reduction to the amount reported on that Statement as endowment investment. The market value of the external trusts totaled $231,423,000 as of June 30, 2012. The University received income from these trusts of $7,427,000 for 2012.

University Investment Pools

Of the University investments, approximately $41,616,000 is separately invested by donor stipulation. The remaining funds are invested in one of three pools. The Temporary Investment Pool represents the investment of substantially all University cash not otherwise invested in the endowment.

The Endowment Investment Pool A is the principal investment pool for the University and Foundation endowments that may be pooled legally or by donor concurrence. The University employs the share method of accounting for the Endowment Investment Pool A investments and for proportionate distribution of income to each fund that participates in the pool. At June 30, 2012, the Endowment Investment Pool A consisted of 8,950,000 shares. Effective July 1, 2002, substantially all endowments held in trust, by donor stipulation, by the University of Cincinnati Foundation were invested in the University's Endowment Investment Pool A. At June 30, 2012, such endowments own 2,671,000 pool shares with a market value of $210,209,000 ($204,988,000 included in investments and $5,221,000 included in cash and cash equivalents and interest receivable) equating to approximately 30% of the Endowment Investment Pool A. The Endowment Investment Pool B comprises real estate holdings received by bequest.

The following tabulation summarizes the changes in relationships between cost and fair values of the Endowment Investment Pool A assets for the year *(in thousands except per share amounts)*:

	Net Cost	Fair Value	Net Gains/ (Losses)	Fair Value Per Share
End of year	$736,669	$703,923	$ (32,746)	$ 78.65
Beginning of year	742,532	733,230	(9,302)	83.74
Unrealized net loss for year			(23,444)	
Realized net gain for year			15,926	
Total net loss for year			$ (7,518)	
Total gain per share			$ (0.88)	

The University has adopted a spending rate policy which limits the distribution of endowment income earned in the investment pool to 5% of the moving-average market value for the twelve-quarter period ending each December.

Income allocated for spending during 2012 amounted to $4.27 per share of the Endowment Investment Pool A. The average annual earnings per share, exclusive of capital appreciation, amounted to $1.59.

GASB standards require government entities to categorize investments by interest rate risk, credit risk, and custodial credit risk.

Interest Rate Risk

The University's investments total $1,026,493,000 including $204,988,000 of UC Foundation's share of the Endowment Investment A Pool. The segmented time distribution method is used to portray interest rate risk of $460,679,000 of bond and other fixed income investments. Investments for the year ended June 30, 2012 is summarized as follows (in thousands):

		Investment Maturities (In Years) 2012			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US Treasury obligations	$ 4,006	$ -	$ 1,090	$ -	$ 2,916
US Government Agencies	67,556	26,624	30,494	14	10,424
US Treasury STRIPS	657	657	-	-	-
Municipal bonds and notes	53,498	18,556	31,639	1,468	1,835
Corporate bonds and notes	231,385	108,591	102,229	18,538	2,027
Bond mutual funds	49,921	-	-	49,921	-
Local mortgage secured loans	52,738	39,506	-	7,432	5,800
Other	918	367	551	-	-
Total	$ 460,679	$ 194,301	$ 166,003	$ 77,373	$ 23,002

Local mortgage secured loans are comprised of demand notes receivable. Amounts reflected as maturities represent management's best estimate of anticipated collections of these receivables.

The University's investment policy stipulates that the weighted average maturity of investments in the Temporary Investment Pool will be no longer than 6 years. The weighted average of fixed income maturities in the Endowment portfolio will not exceed 20 years.

Credit Risk

The Temporary Investment Pool permits investments in investment grade securities at the time of purchase. Securities downgraded below investment grade rating after purchase are permitted to be retained. 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. In accordance with the University's investment policy, the University's bond and other fixed income investments are rated by nationally recognized rating organizations as follows as of June 30 (in thousands):

Rating	2012
AAA	$ 93,833
AA	116,238
A	150,862
BBB	36,311
M1G1	6,030
Not Rated	57,405
Total	$ 460,679

Custodial Credit Risk

Of the University's $1,026,493,000 total investments, which includes $204,988,000 of the UC Foundation's share of the Endowment Investment Pool A, $960,750,000 are uninsured, not registered in the name of the University, and are held by trust departments or agents in the University's name, and thus are exposed to custodial credit risk. The University does not have a policy for custodial credit risk.

3. Accounts and Notes Receivable

Accounts and notes receivable as of June 30, 2012 are as follows *(in thousands)*:

	2012
Accounts receivable	$ 42,680
Notes receivable	31,893
Accrued interest receivable	7,012
Total	81,585
Less current receivables	52,503
Noncurrent receivables	$ 29,082

Allowances for uncollectible receivables have been provided in the amount of approximately $4,711,000 for accounts receivable and $6,588,000 for notes receivable as of June 30, 2012.

An allowance for uncollectible accrued interest receivable has been provided in the amount of approximately $20,976,000 related to loans made to certain nonprofit entities as of June 30, 2012 (see Note 2).

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 is summarized as follows *(in thousands)*:

	Balance July 1, 2011	Additions	Retirements/ Transfers	Balance June 30, 2012
Land	$ 26,711	$ 764	$ (1,055)	$ 26,420
Land improvement	101,558	-	103	101,661
Buildings	1,881,791	2,426	21,394	1,905,611
Construction in progress	102,810	94,374	(24,164)	173,020
Infrastructure	116,608	133	279	117,020
Building equipment	15,801	-	65	15,866
Moveable equipment	180,497	14,622	(8,270)	186,849
Computer software	38,940	185	7	39,132
Library books	160,487	8,207	(4,235)	164,459
Collections	15,016	50	4	15,070
	2,640,219	120,761	(15,872)	2,745,108
Less: Accumulated depreciation	1,195,852	100,157	(11,283)	1,284,726
Capital assets, net	$1,444,367	$ 20,604	$ (4,589)	$1,460,382

* Amounts include the beginning balances of UHCURC's capital assets and accumulated depreciation (see Note 16)

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

5. Accounts Payable and Accrued Liabilities

Accounts payable and the current portion of accrued liabilities as of June 30, 2012 are as follows *(in thousands):*

	2012
Compensated absences (Current portion)	$ 37,818
Compensation	41,773
Accrued liabilities	36,832
Vendors payable	46,758
Total	$ 163,181

6. Bonds and Notes Payable

Bonds and notes payable at June 30, 2012 comprise the following *(in thousands)*:

Bond Series – Fixed Rate Debt	Issue Date	Maturity Dates Through	Interest Rate	2012
T, AA	1998	2013	5.50%	$ 2,070
2001A	2001	2031	5.00%	-
2002A	2002	2022	4.10-4.875%	-
2002D	2002	2022	4.25-5.00%	-
2002F	2003	2024	4.00-5.00%	-
2002G	2003	2031	3.75-5.00%	4,195
2003C	2003	2026	5.00%	8,090
2004A	2004	2031	3.00-5.00%	45,225
2004D	2004	2026	4.00-5.00%	18,715
2004E	2005	2021	3.75-5.00%	15,820
2005A	2005	2020	4.00-5.00%	65,130
2005D	2006	2019	4.00-5.00%	20,410
2006A	2006	2031	3.50-5.00%	43,135
2007A	2007	2031	3.75-5.00%	73,335
2007G	2008	2034	3.75-5.00%	84,185
2008C	2008	2031	3.00-5.00%	35,675
2008G	2009	2020	4.00-5.50%	16,400
2009C	2010	2030	2.00-5.00%	101,805
2009E	2010	2030	2.00-4.65%	5,680
2010B	2011	2015	2.00-3.00%	1,960
2010C (Taxable Build America Bonds)	2011	2039	3.236-6.484%	94,865
2010F	2011	2034	2.00-5.00%	93,900
2010G (Taxable Build America Bonds)	2011	2032	4.716-6.275%	14,880
2011A	2011	2021	3.00-5.00%	14,620
2011C	2011	2031	2.00-5.25%	27,380
2011E	2012	2028	3.00 - 5.00%	29,125
2012A	2012	2031	2.00 - 5.00%	87,900
Total bonds payable – fixed rate debt				$904,500

Notes Payable/Other Debt	Issue Date	Maturity Dates Through	Interest Rate	2012
Bond Anticipation Notes				
2010E	July 2010	July 2011	1.50%	$ -
2010H	December 2010	December 2011	2.00%	-
2011B	May 2011	May 2012	2.00%	-
2011D	July 2011	July 2012	2.00%	7,930
2011F	December 2011	December 2012	2.00%	44,110
2012B	May 2012	May 2013	2.00%	31,960
Capital Lease Obligations				
Edwards Center (1998)	1998	2012	5.75%	-
Residence halls (2000)	2000	2028	5.125%	-
University Center (2005)	2005	2024	3.50-5.00%	49,970
Stetson capital lease	2006	2033	4.25-5.97%	31,255
Turner capital lease	2006	2033	4.00-5.25%	9,440
Equipment capital leases	2003	2019	2.09-4.41%	3,108
Total notes payable and other debt				177,773
Subtotal bonds and notes payable and other debt				1,082,273
UHCURC*/Hamilton County Bonds-Series 2010	2011	2039	2.00-5.00%	51,165
Total bonds and notes payable and other debt				1,133,438
Premium net of unamortized costs and loss on refunding				19,340
Total bonds and notes payable and other debt, net				$1,152,778

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

Debt Issuances and Permanent Fundings

General Receipt Bonds-Fixed Rate Debt

During the year ended June 30, 2012, the University issued the following general receipt fixed rate bond series:

Series 2011E tax exempt bonds were issued on October 6, 2011 in the amount of $29,125,000. 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 2011E is June 1, 2028. The proceeds were used to pay associated bond issue costs and to refund a total of $29,915,000 of existing debt as follows: $715,000 of Series 2002A, $390,000 of Series 2002D and $10,055,000 of Series 2002F bonds were advance refunded; $8,495,000 of the Jefferson Avenue Residence Hall Certificates of Participation and $10,260,000 of Series 2001A bonds were current refunded.

Series 2012A tax exempt bonds were issued on March 5, 2012 in the amount of $89,040,000. This bond series was issued at a premium and bears interest at rates ranging from 2.00% to 5.00%. The final maturity of Series 2012A is June 1, 2031. The proceeds were used to pay associated bond issue costs and to refund a total of $96,275,000 of existing debt as follows: $4,745,000 of Series 2002G, $45,820,000 of Series 2003C and $24,250,000 of Series 2004D were advance refunded and $21,460,000 of Series 2001A were current refunded.

Derivative Transactions

The University has one pay-fixed interest rate swap in effect at June 30, 2012, 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, 2012 was ($5,263,000). The change in fair value decreased by $3,201,000 in 2012 and is reported as an investment loss within the Statement of Revenues, Expenses and Changes in Net Assets and increases the interest rate swap liability on the Statement of Net Assets.

The following table summarizes the University's pay-fixed interest rate swap agreement:

Associated Debt Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Index Received	Fair Value	Swap Termination Date	Counterparty Rating
As of June 30, 2012							
2012B BANS	$24,075,000	5/1/2009	3.163%	USD- 67% LIBOR-BBA-1M	($5,263,000)	6/1/2030	AA-/Aa3

Based on the swap agreement, the University pays to the swap counterparty 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 2012B 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 2012. 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, 2012, 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 2012B 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 2013 to take appropriate actions relating to the Series 2012B BANS and the outstanding swap.

Fair Value

As of June 30, 2012, the fair value of the swap agreement was a liability of $5,263,000 (reported as interest rate swap liability on the Statement of Net Assets), 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, 2012, the University issued the following Bond Anticipation Notes (BANS):

- Series 2011D was issued at a premium on July 21, 2011 in the amount of $15,990,000, at an interest rate of 2.00%, to current refund $8,990,000 of Series 2010E BANS and issue $7,000,000 to fund a portion of the Campus-Wide Wireless project. Series 2012B issued on May 12, 2012 current refunded $8,060,000 of the Series 2011D BANS; the remaining $7,930,000 was retired on July 19, 2012.

- Series 2011F was issued at a premium on December 16, 2011 in the amount of $44,110,000, at an interest rate of 2.00%, to current refund $32,110,000 of 2010H BANS and to fund $12,000,000 for the Rieveschl Phases 3 & 4 project. Series 2011F matures on December 13, 2012.

- Series 2012B was issued at a premium on May 12, 2012 in the amount of $31,960,000, at an interest rate of 2.00%, to current refund $23,900,000 of Series 2011B BANS and $8,060,000 of Series 2011D BANS. Series 2012B matures on May 9, 2013.

Capital Lease Obligations

At June 30, 2012, the capital lease obligation to finance the costs of the University's University Center project was $49,970,000. The lease for the University Center constitutes 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.

During FY12, the University refunded $8,495,000 of the Jefferson Avenue Residence Complex certificates of participation within Series 2011E general receipt bonds. This refunding did not change the University's obligation under the capital lease to make lease payments; University general receipts are now pledged for this portion of the capital lease payments.

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, 2012, the University's capital lease obligation for One Stetson Square was $31,255,000; at June 30, 2012, the University's capital lease obligation for Turner Center was $9,440,000. 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.

The University also had $3,108,000 of financing obligations outstanding for equipment located in various departmental units at June 30, 2012. The obligations issued for equipment are unsecured except for an interest in the equipment.

Refundings

General Receipts Bond Anticipation Notes— Series 2012B general receipt bond anticipation notes (BANS) were issued on May 12, 2012 in the amount of $31,960,000 for the purpose of current refunding $8,060,000 of Series 2011D BANS which matured July 19, 2012 and $23,900,000 of Series 2011B BANS which came due May 12, 2012. The $8,060,000 portion the 2011D BAN series was issued in advance of the receipt of gifts. The Series 2011B BANS were issued in May 2011 to current refund 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 2012B BAN issue. When bonds are issued to replace the BANS, they will have maturities corresponding to the swap amortization. There was no gain or loss on the refunding transaction.

General Receipts Bonds— Series 2011E general receipt bonds were issued on October 6, 2011 in the amount of $29,125,000. The proceeds were used to refund a total of $29,915,000 in existing debt which included current refunding $8,495,000 of the Jefferson Avenue Residence Hall Certificates of Participation and $10,260,000 of Series 2001A; and advance refunding $715,000 of Series 2002A, $390,000 of Series 2002D, and $10,055,000 of Series 2002F fixed rate bonds. The purpose of this transaction was to refund callable maturities to achieve future debt service savings. The economic gain to the University is $1,967,000 and will be realized over a period of 17 years as a reduction of interest expense. As a result of the refunding, $1,192,000 has been recorded as a deferred loss on refunding recorded within accrued liabilities on the Statement of Net Assets and will be amortized into income from 2012 through 2028. The deferred loss on refunding reflects the difference between the refunding reacquisition price for the respective portion of Series 2011E and the net carrying amount of the outstanding principal balances of the refunded debt issues.

Series 2012A general receipt bonds were issued on March 5, 2012 in the amount of $89,040,000. The proceeds were used to refund a total of $96,275,000 in existing debt which included current refunding $21,460,000 of Series 2001A, and advance refunding $4,745,000 of Series 2002G, $45,820,000 of Series 2003C, and $24,250,000 of Series 2004D fixed rate bonds. The purpose of this transaction was to refund callable maturities to achieve future debt service savings. The economic gain to the University is $11,137,000 and will be realized over a period of 20 years as a reduction of interest expense. As a result of the refunding, $4,956,000 has been recorded as a deferred loss on refunding recorded within accrued liabilities on the Statement of Net Assets and will be amortized into income from 2012 through 2031. The deferred loss on refunding reflects the difference between the refunding reacquisition price for the respective portion of Series 2012A and the net carrying amount of the outstanding principal balances of the refunded debt issues.

Collateralization and Debt 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 $109,307,000 as of June 30, 2012. Payment of base rents is subordinate to debt service payments on the University's general receipt bonds and bond anticipation notes. The capital leases related to equipment is collateralized by the specified equipment.

The required debt service reserve under the Amended and Restated Trust Agreement amounted to approximately $2,236,000 at June 30, 2012. As provided for in the Amended and Restated Trust Agreement, this reserve is solely for the payment of debt service charges on the pre-amended bonds, with the exception that excess amounts may be transferred pursuant to Section 4.03 of the Amended and Restated Trust Agreement.

Debt Service Commitments

For bonds and notes payable at June 30, 2012 (including the UHCURC/Hamilton County bonds), scheduled annual debt service payments subsequent to June 30, 2012 are as follows *(in thousands):*

Fiscal Year	Principal *	Interest**	Total
2013	$121,340	$48,464	$169,804
2014	43,495	45,328	88,823
2015	46,700	43,442	90,142
2016	47,275	41,387	88,662
2017	52,330	39,268	91,598
2018-2022	265,300	158,008	423,308
2023-2027	219,825	95,809	315,634
2028-2032	144,565	48,521	193,086
2033-2037	71,405	19,729	91,134
2038-2040	27,430	2,628	30,058
Total	$1,039,665	$542,584	$1,582,249

* Fiscal year 2012 principal includes $84,000,000 of BANS that are outstanding as of June 30, 2012. 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 2012B BANS. Principal and associated interest for this BAN series is reflected within FY13 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, 2012 are *(in thousands):*

Fiscal Year	Principal	Interest	Total
2013	$5,378	$4,666	$10,044
2014	5,990	4,400	10,390
2015	6,231	4,117	10,348
2016	7,202	3,805	11,007
2017	4,734	3,449	8,183
2018-2022	26,818	13,534	40,352
2023-2027	19,765	6,882	26,647
2028-2032	14,340	3,057	17,397
2033	3,315	166	3,481
Total	$93,773	$44,076	$137,849

Defeased Debt

Debt defeased by the University for which amounts remain outstanding at June 30, 2012, is *(in thousands):*

Bond/BANS Series	Maturity Dates	Interest Rate(s)	Amount Outstanding
General Receipts Bonds/BANS:			
Series 2002G	2015-2031	1.80-5.00%	$4,745
Series 2003C	2015-2026	3.00-5.00%	45,820
Series 2004D	2016-2023	2.00-5.00%	24,250
Series 2011D BANS	7/19/2012	2.00%	8,060
Total			$82,875

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 incurred on indebtedness for the year ended June 30, 2012 is $44,218,000. In 2012, interest expense on construction-related debt of $8,498,000 net of $792,385 interest earned on invested funds, was capitalized.

Subsequent to June 30, 2012 the University retired $7,930,000 of Series 2011D BANS on July 19, 2012.

Long-Term Liabilities

Long-term liabilities as of June 30, 2012 are as follows *(in thousands)*:

	Year Ended June 30, 2012					
	Balance July 1, 2011	Additions	Reductions	Balance June 30,2012	Current Portion	Noncurrent Portion
Bonds, notes and capital leases:						
Bonds and notes payable	$1,063,340	$210,225	$233,900	$1,039,665	$121,340	$918,325
Capital lease-equipment	5,220	-	2,112	3,108	458	2,650
Capital lease obligations	104,955	-	14,290	90,665	4,920	85,745
Premium net of unamortized costs and loss on refunding	12,802	11,070	4,532	19,340	3,308	16,032
Total bonds, notes and capital leases	1,186,317	221,295	254,834	1,152,778	130,026	1,022,752
Other long-term liabilities:						
Compensated absences	60,304	1,350	2,592	59,062	37,818	21,244
Refundable advances, federal loans	24,898	314	44	25,168		25,168
Deposits held in trust for others	5,861	70,828	69,129	7,560		7,560
Interest rate swap liability	2,062	3,201	-	5,263	-	5,263
Total other long-term liabilities	93,125	75,693	71,765	97,053	37,818	59,235
Total	$1,279,442	$296,988	$326,599	$1,249,831	$167,844	$1,081,987

7. 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 and constructs 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 Assets. Due to state budget constraints, the Ohio legislature did not enact a 2011-2012 biennium capital bill.

8. 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, STRS Ohio and CRS 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 or the Cincinnati Municipal Code. The CRS plan is no longer available to new employees hired on or after July 1, 1977. The remaining number of employees covered by this plan and the related employer contributions are not significant.

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.

All three 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

City of Cincinnati Retirement System
801 Plum Street, Cincinnati, Ohio 45202
Telephone (513) 352-3227
www.cincinnati-oh.gov

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, 2012, there were 1,996 members of the plan. During 2012 the employer contributions were $14,134,000. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2012.

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 Cincinnati Municipal Code provides CRS statutory authority. The required actuarially determined contribution rates (as a percentage of covered payroll) for the employee and the University are as follows for the year ending June 30, 2012:

	OPERS (staff)	OPERS (Law Enforcement staff)	STRS Ohio	CRS
Employee:				
All year	10%		10%	
7/11 – 12/11		11.60%		8.0%
1/12 – 6/12		12.10%		8.5%
University:				
All year	14%	18.10%	14%	17%

The University's contributions, representing 100% of employer contributions for the year ended June 30, 2012 *(in thousands):*

Fiscal Year	OPERS	STRS Ohio	CRS
2012	$21,405	$17,843	$ 61

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 year ended December 31, 2011, OPERS allocated 4.0% of the employer contribution rate to fund the health care program for members in the Traditional Plan. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05%. 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. Of the $21,405,000 University employer contributions to OPERS for 2012, approximately $6,115,000 was to fund OPEB.

For the fiscal year ended June 30, 2011, 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 2012 were approximately $1,274,000.

9. Restricted Net Assets

Restricted net assets are either nonexpendable or expendable. Nonexpendable restricted net assets consist 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 assets may be used for the donor-specified purpose. Restricted nonexpendable and expendable net assets are held for the following purposes *(in thousands):*

	2012
Restricted nonexpendable:	
Instruction	$ 94,525
Research	33,868
Academic support	39,832
College/programs	77,345
Scholarships	68,481
Interest in UC Health	420,645
Other	11,386
	746,082
Less: UHCURC Elimination	16,998
Total	$ 729,084

	2012
Restricted expendable:	
Instruction	$ 28,938
Research	91,874
Academic support	25,172
College/programs	91,262
Scholarships	35,674
Student loans	9,922
Grants and contracts	3,122
Capital projects	4,250
Other	2,755
Total	$ 292,969

10. Investment in UC Health

On June 28, 2012, an Affiliation Agreement was entered into between the University, UC Health, and UC Healthcare System which amended, restated, replaced and superseded in its entirety the Operating and Affiliation Agreement between UC and The Health Alliance of Greater Cincinnati (the "Alliance"). UC Health 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. The educational and research programs of the College of Medicine contribute to the success of UC Health and financial support of such programs is a strategic priority of UC Health.

Although the Affiliation Agreement between the University, UC Health and UC Healthcare System was signed on June 28, 2012, there was an understanding between the parties that the guiding principles and general terms and conditions under which the entities conducted business during the entire fiscal year 2012, beginning on July 1, 2011, would be those outlined in the Affiliation Agreement.

Beginning on July 1, 2011, the University changed accounting methods from the equity method to the cost method to record the University's investment value for UC Health. Therefore, the investment value of $421 million reported on the June 30, 2011 Statement of Net Assets will remain at that value for the June 30, 2012 financial report. This amount will remain constant going forward unless there are any future changes to the investment valuation such as impairment. The investment in the UC Health is included in other assets and long-term investments in the Statement of Net Assets.

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 years ended June 30, 2012 was $12,549,000. 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 years ended June 30, 2012 was approximately $18,185,000.

11. Capital Project Commitments

At June 30, 2012, the University is committed to future capital expenditures as follows *(in thousands):*

Contractual commitments	$ 71,485
Estimated completion costs of projects	158,274
Total	$ 229,759

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, 2012	$ 4,101
Approved state appropriations not yet requested	8,500
University funded prior to June 30, 2012	101,780
Funds to be provided subsequent to June 30, 2012, from various available sources	115,378
Total	$ 229,759

The $115,378,000 of funding to be provided subsequent to June 30, 2012 will come from state funds, debt, and University funds.

12. Self-Insurance Funds

The University currently 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 a qualified not-for-profit physician practice corporation. Medical professional self-insurance limits were $4 million per occurrence for 2012. An additional $15 million in commercial excess professional liability insurance was provided above the self-insured retention.

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 $1 million retention per occurrence with the first $100,000 funded by UC, and the remaining $900,000 funded by pool funds held through the IUC-IC. Excess commercial coverage for general liability was provided with total limits of $50 million, of which $45 million was shared with the other participating universities. In addition, educators' legal liability coverage was provided through the IUC-IC program with $25 million in total limits, of which $20 million was 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.

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 $29,108,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2012 for the University and University of Cincinnati Physicians, Inc. Trust assets recorded on the University financial report total $3,801,000 included in other assets and long-term investments and liabilities of $623,000 included in accounts payable and accrued liabilities in the Statement of Net Assets as of June 30, 2012.

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 losses between $100,000 and $350,000.

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 2012 was approximately $80,821,000. In addition, $6,135,000 was accrued for 2012, for estimated claims incurred but not reported.

13. 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 into the price of natural gas for specified amounts to stabilize costs.

14. University of Cincinnati Foundation

The University of Cincinnati Foundation is a legally separate, tax-exempt component unit of the University. 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.

Accounts of the Foundation have been presented in the accompanying financial statements in accordance with generally accepted accounting principles for not-for-profit organizations.

Cash & Cash Equivalents

The carrying amount of the Foundation's cash and cash equivalents is $3,093,000 as compared to bank balances of $3,859,000. The difference between the carrying amounts and the bank balances is caused primarily by deposits in transit and outstanding checks.

Of the Foundation's bank balances, $3,252,000 is covered by federal depository insurance and money market funds account for $608,000 in cash equivalents.

Investments

The fair value of investments at June 30, 2012 is *(in thousands)*:

	2012
U.S. Government and agency obligations	$ 1,997
Corporate bonds	10,808
Mutual funds	18,103
Common stocks and exchange traded funds	10,548
Other	2,053
University pooled investments	210,209
Total investments	$ 253,718

GASB standards require government entities to categorize investments of interest rate risk, credit risk, and custodial risk.

Interest Rate Risk

The Foundation's investments total $253,718,000 as of June 30, 2012. The segmented time distribution method is used to portray interest rate risk for $20,629,000 of bond and other fixed income investments as of June 30, 2012. Investments for the year ended June 30, 2012 are summarized as follows (in thousands):

		Investment Maturities (In Years) 2012			
Investment Type	Fair Value	Less than 1	1 to 5	6 to10	More than 10
U.S. Government and agency obligations	$ 1,997	$ 56	$ 891	$ 156	$ 894
Corporate bonds	10,808	3,594	5,357	1,703	154
Bond mutual funds	7,824	-	583	7,134	107
Total Investments	$ 20,629	$ 3,650	$ 6,831	$ 8,993	$ 1,155

The Foundation does not have a policy for interest rate risk.

Credit Risk

Bond and other fixed income investments are rated by nationally recognized rating organizations as follows, as of June 30 (in thousands):

	2012
U.S. Government and agency obligations	$ 1,997
AAA	559
AA	3,413
A	6,687
BBB	5,291
BB	23
B	583
Not rated	2,076
Total	$ 20,629

Foundation investment grade bonds are limited to those in the first four grades of any rating system. The average rating of the portfolio of investment grade bonds must be in the top two grades of any rating system. Limited investments having strategic value to the University are permitted.

Custodial Credit Risk

Of the Foundation's $253,718,000 total investments, approximately $253,144,000 are uninsured, not registered in the name of the Foundation, and are held in trust departments or assets in the Foundation's name and are thus not exposed to custodial credit risk. The Foundation does not have a policy for custodial credit risk.

Beneficial Interest in Trusts – External Trustees

These funds represent trusts held by other trustees where the remainder interest will irrevocably benefit the University. In addition, the Foundation has been notified of other 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 effective of the credit risk involved. Beneficial interest in trusts held by other trustees amounted to approximately $8,162,000 as of June 30, 2012.

Pledges Receivable

Contributors to the Foundation have made unconditional pledges totaling $68,293,000 as of June 30, 2012. These pledges receivable have been discounted at a rate ranging from 1% to 6% to a net present value of $55,433,000 as of June 30, 2012, which represents fair market value. As of June 30, these pledges are due as follows *(in thousands):*

	2012
Less than one year	$ 20,738
One to five years	18,568
More than five years	16,127
Subtotal	55,433
Less allowance for uncollectible pledges	3,555
Total	$ 51,878

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.

15. University of Cincinnati Physicians, Inc.

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. During 2010, UCP amended and restated its Code of Regulations including changes in its governance structure. As a result, UCP was determined to be a discretely presented component unit of the University effective 2010.

On July 1, 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 facilitated the legal arrangements for UCP to lease to UCPC certain of its employees and provide administrative and operational support services to UCPC. The agreement also facilitated the conveyance, transfer, and deliverance to UCPC those assets and liabilities used in connection with the operational medical practice and related business. In addition, the agreement transferred the responsibility for providing practice plan reimbursements and practice plan contributions to the University's College of Medicine Enrichment Fund from UCP to UCPC. With the transfer of this responsibility, a financial benefit/burden relationship no longer exists between UCP and the University. Therefore, UCP does not meet the requirements to be reported as a University component unit beginning fiscal year 2012.

The University continues to be responsible for appointing a voting majority of UCP's Board of Directors and therefore, is considered a related organization. However, the University's accountability for UCP does not extend beyond making these appointments.

The net assets previously reported as University Related Organizations have been restated to exclude UCP from the financial statements for all periods presented. More specifically, the beginning net assets reported on the 2012 Statement of Revenues, Expenses and Changes in Net Assets have been reduced by $114,442,000.

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.

Effective September 1, 2009, the structure of UHCURC's Board of Trustees was changed giving the University a voting majority on the board. Due to this governance change 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 ending during the reporting entity's fiscal year. Therefore, UHCURC's financial statements for the year ending August 31, 2011 has been blended with the University's financial statements for the fiscal year ending June 30, 2012.

Condensed statement of net assets for UHCURC as of August 31, 2011 and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended are as follows:

Statement of Net Assets

	8/31/2011
Cash and cash equivalents	$44,142
Accounts receivable – University of Cincinnati	12,968
Capital assets not being depreciated	4,788,026
Capital assets being depreciated, net	47,942,367
Other assets	2,092,227
Total assets	54,879,730
Long-term debt – current portion	965,000
Long-term debt	50,617,146
Accrued interest payable – University of Cincinnati	7,357,744
Note payable – University of Cincinnati	16,998,436
Other liabilities	595,637
Total liabilities	76,533,963
Investment in capital assets, net of related debt	1,148,247
Unrestricted	(22,802,480)
Tot net assets	$(21,654,233)

Statement of Revenues, Expenses and Changes in Net Assets

	8/31/2011
Operating revenues	$2,816,888
Operating expenses	3,525,511
Depreciation	1,584,798
Operating loss	(2,293,421)
Other nonoperating expenses	(18,564)
Decrease in net assets	(2,311,985)
Net assets, beginning of the year	(19,342,248)
Net assets, end of the year	$(21,654,233)

Statement of Cash Flows

	8/31/2011
Net cash from operating activities	$778,750
Net cash used for capital and financing activities	(773,443)
Net increase in cash and cash equivalents	5,307
Cash and cash equivalents, beginning of the year	38,835
Cash and cash equivalents, end of the year	$44,142