

THE CINCINNATI SCHOLARSHIP FOUNDATION

Financial Statements

Years Ended June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

SmithPearlman & Co.
Certified Public Accountants
and Business Advisors

Alvin M. Pearlman, CPA
David E. Smith, CPA

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Independent Auditors' Report

The Board of Trustees
The Cincinnati Scholarship Foundation:

We have audited the accompanying financial statements of The Cincinnati Scholarship Foundation (the Foundation) (a nonprofit organization) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion of these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cincinnati Scholarship Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SmithPearlman & Co

SMITHPEARLMAN & CO.
November 15, 2013

THE CINCINNATI SCHOLARSHIP FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 73,527 | 55,611 |
| Accounts receivable: | | |
| Contributions | 67,017 | 102,572 |
| Administration fees and other | 10,808 | 18,220 |
| Investment income receivable | 1,713 | 1,004 |
| Prepays and other assets | 16,656 | 15,274 |
| Investments (Note C) | 3,949,032 | 2,701,666 |
| Furniture and equipment, net (Note D) | <u>14,264</u> | <u>18,792</u> |
| TOTAL ASSETS | \$ <u>4,133,017</u> | <u>2,913,139</u> |
| LIABILITIES | | |
| Accounts payable | \$ 1,825 | 4,147 |
| Accrued expenses and liabilities | <u>14,665</u> | <u>8,066</u> |
| TOTAL LIABILITIES | 16,490 | 12,213 |
| NET ASSETS | | |
| Unrestricted | 761,108 | 716,325 |
| Temporarily restricted | 2,671,923 | 1,503,955 |
| Permanently restricted | <u>683,496</u> | <u>680,646</u> |
| TOTAL NET ASSETS | <u>4,116,527</u> | <u>2,900,926</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>4,133,017</u> | <u>2,913,139</u> |

See accompanying notes to financial statements.

THE CINCINNATI SCHOLARSHIP FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|------------------------|------------------------|------------------|
| REVENUES AND OTHER SUPPORT: | | | | |
| Contributions and grants | \$ 98,315 | 2,374,277 | 2,850 | 2,475,442 |
| Investment return | 173,767 | 110,977 | 0 | 284,744 |
| Administration fees | 163,527 | 0 | 0 | 163,527 |
| Fundraising | 46,355 | 0 | 0 | 46,355 |
| Net assets released from restrictions: | | | | |
| Restrictions satisfied by payments | 1,317,286 | (1,317,286) | 0 | 0 |
| TOTAL REVENUES AND OTHER SUPPORT | 1,799,250 | 1,167,968 | 2,850 | 2,970,068 |
| EXPENSES: | | | | |
| Scholarship and award payments | 1,317,286 | 0 | 0 | 1,317,286 |
| Program and Supporting Services: | | | | |
| Scholarship and award administration | 330,374 | 0 | 0 | 330,374 |
| Management and general | 83,107 | 0 | 0 | 83,107 |
| Fundraising | 23,700 | 0 | 0 | 23,700 |
| TOTAL EXPENSES | 1,754,467 | 0 | 0 | 1,754,467 |
| CHANGES IN NET ASSETS | 44,783 | 1,167,968 | 2,850 | 1,215,601 |
| NET ASSETS AT BEGINNING OF YEAR | 716,325 | 1,503,955 | 680,646 | 2,900,926 |
| NET ASSETS AT END OF YEAR | \$ 761,108 | 2,671,923 | 683,496 | 4,116,527 |

See accompanying notes to financial statements.

THE CINCINNATI SCHOLARSHIP FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|------------------------|------------------------|------------------|
| REVENUES AND OTHER SUPPORT: | | | | |
| Contributions and grants | \$ 32,096 | 1,592,513 | 3,726 | 1,628,335 |
| Investment return | 33,288 | (1,236) | 0 | 32,052 |
| Administrative fees | 184,976 | 0 | 0 | 184,976 |
| Fundraising | 25,170 | 0 | 0 | 25,170 |
| Net assets released from restrictions: | | | | |
| Restrictions satisfied by payments | 1,499,097 | (1,499,097) | 0 | 0 |
| TOTAL REVENUES AND OTHER SUPPORT | 1,774,627 | 92,180 | 3,726 | 1,870,533 |
| EXPENSES: | | | | |
| Scholarship and award payments | 1,499,097 | 0 | 0 | 1,499,097 |
| Program and Supporting Services: | | | | |
| Scholarship and award administration | 321,684 | 0 | 0 | 321,684 |
| Management and general | 74,680 | 0 | 0 | 74,680 |
| Fundraising | 15,996 | 0 | 0 | 15,996 |
| TOTAL EXPENSES | 1,911,457 | 0 | 0 | 1,911,457 |
| CHANGES IN NET ASSETS | (136,830) | 92,180 | 3,726 | (40,924) |
| NET ASSETS AT BEGINNING OF YEAR | 853,155 | 1,411,775 | 676,920 | 2,941,850 |
| NET ASSETS AT END OF YEAR | \$ 716,325 | 1,503,955 | 680,646 | 2,900,926 |

See accompanying notes to financial statements.

THE CINCINNATI SCHOLARSHIP FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2013 and 2012

| | 2013 | | 2013 | | 2013 | | 2012 | | 2012 | |
|---|--------------------------------------|------------------------|---------------|----------------|--------------------------------------|------------------------|---------------|----------------|--------------------------------------|------------------------|
| | Scholarship and Award Administration | Management and General | Fund-raising | Total | Scholarship and Award Administration | Management and General | Fund-raising | Total | Scholarship and Award Administration | Management and General |
| Compensation and related expenses: | | | | | | | | | | |
| Compensation | \$ 192,300 | 34,339 | 2,289 | 228,928 | 182,559 | 32,600 | 2,173 | 217,332 | 41,401 | 7,393 |
| Employee benefits | 42,900 | 7,661 | 511 | 51,072 | 41,401 | 7,393 | 493 | 49,287 | 13,815 | 2,467 |
| Payroll taxes | 14,390 | 2,570 | 171 | 17,131 | 13,815 | 2,467 | 164 | 16,446 | 237,775 | 42,460 |
| | <u>249,590</u> | <u>44,570</u> | <u>2,971</u> | <u>297,131</u> | | | <u>2,830</u> | <u>283,065</u> | | |
| Rent | 21,526 | 3,799 | 0 | 25,325 | 21,526 | 3,799 | 0 | 25,325 | 6,438 | 1,610 |
| Telephone | 6,308 | 1,577 | 0 | 7,885 | 6,438 | 1,610 | 0 | 8,048 | 0 | 555 |
| Staff Training | 0 | 74 | 0 | 74 | 0 | 555 | 0 | 555 | 3,421 | 604 |
| Office supplies and expense | 3,480 | 614 | 0 | 4,094 | 3,421 | 604 | 0 | 4,025 | 6,636 | 737 |
| Postage | 6,647 | 739 | 0 | 7,386 | 6,636 | 737 | 0 | 7,373 | 1,709 | 214 |
| Printing and publications | 2,713 | 339 | 339 | 3,391 | 1,709 | 214 | 214 | 2,137 | 5,141 | 571 |
| Depreciation | 4,075 | 453 | 0 | 4,528 | 5,141 | 571 | 0 | 5,712 | 0 | 12,951 |
| Marketing | 0 | 20,389 | 20,390 | 40,779 | 0 | 12,951 | 12,952 | 25,903 | 30,223 | 5,333 |
| Legal and accounting fees | 27,982 | 4,938 | 0 | 32,920 | 30,223 | 5,333 | 0 | 35,556 | 3,799 | 670 |
| Computer maintenance | 4,536 | 801 | 0 | 5,337 | 3,799 | 670 | 0 | 4,469 | 423 | 634 |
| Insurance | 477 | 715 | 0 | 1,192 | 423 | 634 | 0 | 1,057 | 745 | 132 |
| Repairs and maintenance | 581 | 102 | 0 | 683 | 745 | 132 | 0 | 877 | 469 | 117 |
| Travel | 471 | 118 | 0 | 589 | 469 | 117 | 0 | 586 | 108 | 0 |
| Conferences | 135 | 0 | 0 | 135 | 108 | 0 | 0 | 108 | 3,271 | 2,553 |
| Miscellaneous | 1,853 | 2,537 | 0 | 4,390 | 3,271 | 2,553 | 0 | 5,824 | 0 | 1,740 |
| Dues | 0 | 1,342 | 0 | 1,342 | 0 | 1,740 | 0 | 1,740 | | |
| | <u>\$ 330,374</u> | <u>83,107</u> | <u>23,700</u> | <u>437,181</u> | <u>321,684</u> | <u>74,680</u> | <u>15,996</u> | <u>412,360</u> | | |

See accompanying notes to financial statements.

THE CINCINNATI SCHOLARSHIP FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase (Decrease) in net assets | \$ 1,215,601 | (40,924) |
| Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities: | | |
| Depreciation and amortization | 4,528 | 5,712 |
| Net realized and unrealized (gains) or losses on investments | (203,081) | 66,403 |
| Contributions restricted for permanent endowment | (2,580) | (3,726) |
| Interest and dividends restricted for scholarships | (31,040) | (33,321) |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 42,967 | (4,662) |
| Other assets | (2,091) | 499 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | <u>4,277</u> | <u>(6,376)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 1,028,581 | (16,395) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investments | 1,208,216 | 835,985 |
| Purchase of investments | <u>(2,252,501)</u> | <u>(835,733)</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | (1,044,285) | 252 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for permanent endowment | 2,580 | 3,726 |
| Interest and dividends restricted for scholarships | <u>31,040</u> | <u>33,321</u> |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>33,620</u> | <u>37,047</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 17,916 | 20,904 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>55,611</u> | <u>34,707</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 73,527</u> | <u>55,611</u> |

See accompanying notes to financial statements.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements

June 30, 2013 and 2012

Note A – Organization

The Cincinnati Scholarship Foundation (the Foundation) is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was founded in 1918. The Foundation was organized to provide scholarship funds for the cultural and educational advancement of worthy and financially needy high school and college students. The Foundation receives revenues primarily from contributions by individuals, corporations and other organizations.

The Foundation also administers scholarship disbursements on behalf of certain outside organizations such as The Johnny Bench Scholarship Fund. Such scholarship disbursements approximated \$129,000 and \$134,000 for the years ended June 30, 2013 and 2012, respectively. The financial resources and results of operations of these outside organizations are not recorded in the financial statements of the Foundation.

Note B – Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note B – Summary of Significant Accounting Policies - continued

Contributions and Investment Income

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Investment income is reported as an increase in unrestricted net assets unless restricted by the donor. If the income is restricted, it is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Realized gains and losses are reflected as an increase or decrease to unrestricted net assets, except for those that relate to permanently restricted funds which are reported as additions to or deductions from permanently restricted net assets.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents restricted for Scholarship payments are excluded from the Statements of Cash Flows because they are restricted for future scholarships or awards.

Investments

The Foundation carries investments in marketable securities and all debt securities at their fair market values. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note B – Summary of Significant Accounting Policies - continued

Investment Pool

The majority (approximately 99% at June 30, 2013 and 2012) of the Foundation's investments is maintained in a Consolidated Investment Account at Fifth Third Bank. Income, including realized and unrealized gains and losses from this account are allocated quarterly to individual funds based on the relationship of the value of each fund as of the previous quarter to the total value of the Consolidated Investment Account.

Furniture and Equipment

Furniture and equipment are carried at cost or at fair market value at the date donated. Major replacements and improvements and extraordinary maintenance expenditures are capitalized.

Depreciation of the assets is computed over the estimated useful life of the asset on a straight-line basis. Depreciation expense for the years ended June 30, 2013 and 2012 was \$4,528 and \$5,712, respectively.

Restrictions on Net Assets

Temporarily restricted net assets are available for high school awards and college scholarships. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from these permanently restricted assets can be used for high school awards and college scholarships.

Concentration of Credit Risk

The Foundation maintains its cash balances in one financial institution located in Cincinnati, Ohio. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances exceeded this insured limit on less than 10% of the days during the year, and included the periods during the year when the majority of awards were being made.

Subsequent Events

Management has evaluated subsequent events through November 15, 2013 which is the date the financial statements were available to be issued.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note B – Summary of Significant Accounting Policies - continued

Income Taxes

The Foundation is a not-for-profit organization qualified for tax exempt status as defined under Section 501(c)(3) of the Internal Revenue Code.

Note C – Investments

Investments are stated at fair value and consist of the following at June 30, 2013 and 2012:

| | <u>June 30, 2013</u> | | |
|--------------------|----------------------|-------------------|---|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation (Depreciation)</u> |
| Stock mutual funds | \$1,805,712 | 1,973,278 | 167,566 |
| Bond mutual funds | 945,846 | 951,751 | 5,905 |
| Money market funds | <u>1,024,003</u> | <u>1,024,003</u> | <u>0</u> |
| | <u>\$3,775,561</u> | <u>3,949,032</u> | <u>173,471</u> |
| | <u>June 30, 2012</u> | | |
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation (Depreciation)</u> |
| Stock mutual funds | \$1,727,691 | 1,840,384 | 112,693 |
| Bond mutual funds | 804,755 | 851,115 | 46,360 |
| Money market funds | <u>10,167</u> | <u>10,167</u> | <u>0</u> |
| | <u>\$2,542,613</u> | <u>2,701,666</u> | <u>159,053</u> |

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note C – Investments - continued

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2013 and 2012:

| | <u>June 30, 2013</u> | | |
|---|----------------------|----------------------------------|----------------|
| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | <u>Total</u> |
| Dividend and interest income | \$ 50,623 | 31,040 | 81,663 |
| Net realized and unrealized gains (losses) | <u>123,144</u> | <u>79,937</u> | <u>203,081</u> |
| Total investment return | <u>\$ 173,767</u> | <u>110,977</u> | <u>284,744</u> |

| | <u>June 30, 2012</u> | | |
|---|----------------------|----------------------------------|-----------------|
| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | <u>Total</u> |
| Dividend and interest income | \$ 65,134 | 33,321 | 98,455 |
| Net realized and unrealized gains (losses) | <u>(31,846)</u> | <u>(34,557)</u> | <u>(66,403)</u> |
| Total investment return | <u>\$ 33,288</u> | <u>(1,236)</u> | <u>32,052</u> |

Expenses relating to investment return, including custodial and investment advisory fees, amounted to \$13,237 and \$12,924 for the years ended June 30, 2013 and 2012, respectively. They have been netted against investment revenues in the accompanying Statements of Activities.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note D – Furniture and Equipment

A summary of furniture and equipment as of June 30, 2013 and 2012 follows:

| | | |
|----------------------------------|------------------|-----------------|
| | <u>2013</u> | <u>2012</u> |
| Furniture and Equipment | \$ 41,311 | 41,311 |
| Leasehold Improvements | <u>11,939</u> | <u>11,939</u> |
| | 53,250 | 53,250 |
| Less accumulated Depreciation | <u>(38,986)</u> | <u>(34,458)</u> |
| | <u>\$ 14,264</u> | <u>18,792</u> |

Note E - Endowments

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (“OUPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OUPMIFA. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note E – Endowments - continued

- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

Investment Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs and operations while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). The Foundation expects its endowment funds, over time, to provide a reasonable level of current income to support its spending policy and to grow equity assets while maintaining a moderate level of risk. Actual returns in any given period may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation of 40% to 60% equity securities and 40% to 60% fixed income securities and cash equivalents to achieve its long-term objectives within prudent risk constraints.

Spending Policies and How the Investment Objectives Relate to Spending Policy

The intent of the Foundation's spending policy is to appropriate for expenditure each year an amount, subject to any donor restrictions, the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment was established. Unless stated otherwise in the gift instrument, the assets in the endowment fund are donor-restricted assets until appropriated for expenditure by the Foundation. In making a determination to appropriate or accumulate, the Foundation acts in good faith and in a manner consistent with the standard of prudence prescribed by OUPMIFA. The Foundation has a general policy of appropriating for distribution each year 5% of the five year moving average of the endowment market value. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide for additional real growth through new gifts and investment return.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note E – Endowments – continued

Endowment net asset composition by type of fund consists of the following as of June 30:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------------|-------------------|----------------|
| Temporarily restricted net assets | \$ 281,657 | 222,946 |
| Permanently restricted net assets | <u>683,496</u> | <u>680,646</u> |
| Totals | <u>\$ 965,153</u> | <u>903,592</u> |

Changes in endowment net asset composition for the year ended June 30, 2013 are as follows:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Endowment Assets</u> |
|------------------------------|-----------------------------------|-----------------------------------|---|
| Net assets, July 1, 2012 | \$ 222,946 | 680,646 | 903,592 |
| Contributions | - | 2,850 | 2,850 |
| Investment Income | 26,348 | - | 26,348 |
| Net appreciation | 67,944 | - | 67,944 |
| Appropriated for expenditure | <u>(35,581)</u> | <u>-</u> | <u>(35,581)</u> |
| Net assets, June 30, 2013 | <u>\$ 281,657</u> | <u>683,496</u> | <u>965,153</u> |

Changes in endowment net asset composition for the year ended June 30, 2012 are as follows:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Endowment Assets</u> |
|------------------------------|-----------------------------------|-----------------------------------|---|
| Net assets, July 1, 2011 | \$ 276,141 | 676,920 | 953,061 |
| Contributions | - | 3,726 | 3,726 |
| Investment Income | 29,829 | - | 29,829 |
| Net depreciation | (34,206) | - | (34,206) |
| Appropriated for expenditure | <u>(48,818)</u> | <u>-</u> | <u>(48,818)</u> |
| Net assets, June 30, 2012 | <u>\$ 222,946</u> | <u>680,646</u> | <u>903,592</u> |

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note F – Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB Statement are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in inactive markets;
3. Inputs other than quoted prices that are observable for the asset or liability;
4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's investments consist of cash equivalents, stock mutual funds, and bond mutual funds. See Note C. Shares of the stock and bond mutual funds are valued at quoted market prices for identical assets. The valuations of the Foundation's investments according to the fair value hierarchy are all Level 1.

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note F – Fair Value Measurements – continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table reflects the Foundation's assets required to be measured at fair value on a recurring basis on the statement of financial position at June 30, 2013 and 2012:

| | <u>June 30, 2013</u> | | |
|----------------------|------------------------------|----------------|----------------|
| | Fair Value Measurement Using | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments (Note C) | <u>\$3,949,032</u> | ===== | ===== |
| | | | |
| | <u>June 30, 2012</u> | | |
| | Fair Value Measurement Using | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments (Note C) | <u>\$2,701,666</u> | ===== | ===== |

Note G – Lease

The Foundation leases its office space under a five year operating lease agreement for its office space that runs through December 2014. Annual payments under the lease are \$25,325. The new lease agreement also includes three renewal options at two years each.

Rental expense for the years ended June 30, 2013 and 2012 amounted to \$25,325 and \$25,325, respectively. Future minimum lease payments are as follows:

| Year Ending | <u>Amount</u> |
|-----------------|-----------------|
| <u>June 30,</u> | |
| 2014 | 25,325 |
| 2015 | <u>12,662</u> |
| | <u>\$37,987</u> |

THE CINCINNATI SCHOLARSHIP FOUNDATION

Notes to Financial Statements, Continued

June 30, 2013 and 2012

Note H – Risks and Uncertainties

The Foundation's investments are in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Note I – Concentrations

A significant portion of the Foundation's unrestricted operating revenue and support comes in the form of administration fees from the Greater Cincinnati Scholarship Association (GCSA). For the years ended June 30, 2013 and 2012, the Foundation received \$71,500 (15%) and \$63,270 (23%), respectively, of its unrestricted operating support from the GCSA.

In addition, a significant portion of the Foundation's temporarily restricted contributions comes from The Greater Cincinnati Scholarship Association. For the years ended June 30, 2013 and 2012, the Foundation received approximately \$832,945 (35%) and \$897,416 (56%), of its temporarily restricted contributions from the Greater Cincinnati Scholarship Association.

Note J – Employee Benefit Plans

The Foundation has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Foundation. Employees may make contributions to the plan up to the maximum allowed by the Internal Revenue Code if they wish. The contributions the Foundation made to the plan for the years ended June 30, 2013 and 2012 was \$6,502 and \$6,502, respectively.