The University of Akron Foundation

Financial Statements

June 30, 2008 and 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
The University of Akron Foundation
302 E Buchtel Commons
Akron, Ohio 44325

We have reviewed the *Independent Auditor's Report* of The University of Akron Foundation, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Robert R. Hinkle

Robert R. Hinkle, CPA
Chief Deputy Auditor

December 16, 2008

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The University of Akron Foundation

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Independent Auditor's Report

To the Board of Directors
The University of Akron Foundation

We have audited the accompanying statement of financial position of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, as of June 30, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The University of Akron Foundation as of and for the year ended June 30, 2007 were audited by other auditors, whose report dated September 14, 2007 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Foundation as of June 30, 2008 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008 on our consideration of The University of Akron Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on pages 18 and 19 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
The University of Akron Foundation

As explained in Note 3, the financial statements include investments valued at $9,570,205 (6 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by fund managers or the general partners.

Plante & Moran, PLLC

October 16, 2008
Toledo, Ohio

The University of Akron Foundation

Statement of Financial Position

	June 30 2008	June 30 2007
Assets		
Cash	$ -	$ 84,947
Accounts and notes receivable	203,572	248,009
Pledges receivable - Net of allowance and discount (Note 4)	9,822,922	3,765,513
Investments - At fair value (Note 3)	151,270,259	157,886,166
Beneficial interest in charitable lead trusts (Note 8)	264,399	358,913
Beneficial interest in real estate (Note 9)	1,700,000	1,700,000
Property - Net (Note 5)	5,761,850	5,653,501
Total assets	**$ 169,023,002**	**$ 169,697,049**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 483,276	$ 32,984
Contributions payable to the University (Note 6)	399,507	401,790
Note payable (Note 14)	1,500,000	-
Deferred revenue	30,000	-
Refundable advances (Note 13)	95,285	118,001
Actuarial liability for annuity/unitrust agreements (Notes 7 and 9)	11,844,733	10,301,576
Total liabilities	14,352,801	10,854,351
Net Assets		
Unrestricted (Note 11)	6,625,863	8,496,524
Temporarily restricted (Note 11)	59,726,772	63,639,471
Permanently restricted (Note 11)	88,317,566	86,706,703
Total net assets	154,670,201	158,842,698
Total liabilities and net assets	**$ 169,023,002**	**$ 169,697,049**

See Notes to Financial Statements.

The University of Akron Foundation

Statement of Activities
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Additions				
Contributions	$ 3,166	$ 14,513,522	$ 5,252,638	$ 19,769,326
Net change in the fair value of investments	(1,129,549)	(7,986,168)	(889,108)	(10,004,825)
Change in the fair value of split-interest agreements	(1,856)	(6,408)	(2,518,163)	(2,526,427)
Change in the fair value of beneficial interest in perpetual trusts	-	1,488	14,516	16,004
Dividend and interest income	2,209,362	1,350,968	9,632	3,569,962
Other income	1,500	110,840	1,500	113,840
Total revenue and other additions	1,082,623	7,984,242	1,871,015	10,937,880
Release of Restrictions	12,157,093	(12,057,857)	(99,236)	-
Total revenue and other additions and release of restrictions	13,239,716	(4,073,615)	1,771,779	10,937,880
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University	12,892,054	-	-	12,892,054
Distributions on behalf of the University	1,500,368	-	-	1,500,368
Administration of the Foundation:				
Services performed by University personnel (Note 12)	349,552	-	-	349,552
Professional fees	147,616	-	-	147,616
Other administrative expenses	190,485	-	-	190,485
Depreciation	1,651	-	-	1,651
Office expenses	20,730	-	-	20,730
Insurance and taxes	7,921	-	-	7,921
Total expenses	15,110,377	-	-	15,110,377
Change in Donor Designation	-	160,916	(160,916)	-
Change in Net Assets	(1,870,661)	(3,912,699)	1,610,863	(4,172,497)
Net Assets - Beginning of year	8,496,524	63,639,471	86,706,703	158,842,698
Net Assets - End of year	**$ 6,625,863**	**$ 59,726,772**	**$ 88,317,566**	**$ 154,670,201**

See Notes to Financial Statements.

The University of Akron Foundation

Statement of Activities
Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Additions				
Contributions	$ 2,045	$ 5,529,957	$ 8,942,991	$ 14,474,993
Net change in the fair value of investments	1,385,966	13,854,739	900,961	16,141,666
Change in the fair value of split-interest agreements	(765)	2,055	1,719,002	1,720,292
Change in the fair value of beneficial interest in perpetual trusts	-	(2,693)	18,382	15,689
Dividend and interest income	2,019,751	976,367	6,423	3,002,541
Other income	-	154,778	-	154,778
Total revenue and other additions	3,406,997	20,515,203	11,587,759	35,509,959
Release of Restrictions	8,457,452	(8,283,430)	(174,022)	-
Total revenue and other additions and release of restrictions	11,864,449	12,231,773	11,413,737	35,509,959
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University	9,404,213	-	-	9,404,213
Distributions on behalf of the University	393,802	-	-	393,802
Administration of the Foundation:				
Services performed by University personnel (Note 12)	348,244	-	-	348,244
Professional fees	115,042	-	-	115,042
Other administrative expenses	140,653	-	-	140,653
Office expenses	18,716	-	-	18,716
Insurance and taxes	7,943	-	-	7,943
Total expenses	10,428,613	-	-	10,428,613
Change in Donor Designation	-	27,192	(27,192)	-
Change in Net Assets	1,435,836	12,258,965	11,386,545	25,081,346
Net Assets - Beginning of year	7,060,688	51,380,506	75,320,158	133,761,352
Net Assets - End of year	**$ 8,496,524**	**$ 63,639,471**	**$ 86,706,703**	**$ 158,842,698**

See Notes to Financial Statements.

The University of Akron Foundation

Statement of Cash Flows

	Year Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Change in net assets	$ (4,172,497)	$ 25,081,346
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	10,004,825	(16,141,666)
Contributed property	(110,000)	(3,505,906)
Contributions restricted for long-term investment	(5,142,638)	(5,437,085)
Change in fair value of split-interest agreements	2,526,427	(1,720,292)
Depreciation	1,651	-
Changes in operating assets and liabilities:		
Accounts and notes receivable - Net	44,438	(45,438)
Pledges receivable - Net	(6,057,409)	(1,911,656)
Beneficial interest in charitable lead trusts	94,514	95,717
Accounts payable and other liabilities	455,292	(69,045)
Net cash used in operating activities	(2,355,397)	(3,654,025)
Cash Flows from Investing Activities		
Proceeds from sale of investments	213,754,324	100,112,708
Purchase of investments	(217,143,241)	(103,255,903)
Proceeds from the sale of property	-	128,762
Purchases of property	-	(15,000)
Net cash used in investing activities	(3,388,917)	(3,029,433)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	4,741,674	5,392,975
Investment subject to annuity agreements	2,395,047	189,527
Other financing activities:		
Proceeds from issuance of notes payable	1,500,000	-
Interest and dividends restricted for annuity agreements	298,791	209,498
Net change in restricted for annuity agreements	(1,524,938)	2,292,232
Payments of annuity obligations	(1,751,207)	(1,397,515)
Net cash provided by financing activities	5,659,367	6,686,717
Net (Decrease) Increase in Cash	(84,947)	3,259
Cash - Beginning of year	84,947	81,688
Cash - End of year	**$ -**	**$ 84,947**

See Notes to Financial Statements.

Note 1 - Organization

The University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, is a not-for-profit organization. The Foundation's mission is to provide financial assistance to the University of Akron (the "University") by encouraging and administering gifts and bequests.

The Foundation receives contributions from the following support groups of the University:

John R. Buchtel Society (the "Society")

The Society includes seven gift clubs, ranging from the Loyalty Club for annual donors of up to $99 to the 1870 Benefactors Club for lifetime contributions of $1 million or more.

Partners in Excellence (the "Group")

The Group constitutes an array of companies, foundations, and business organizations providing financial, technical, and material assistance to the University, including the following:

- Unrestricted support to the University
- Support for the Crusade for Scholars program
- Support for the Center for Economic Education
- Support for the intercollegiate athletic program
- Support for restricted purposes

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The accounts of the Foundation are maintained in accordance with the principles of not-for-profit accounting. The statements have been prepared on an accrual basis.

Basis of Presentation - The Foundation reports net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations. This category includes unrestricted assets and uncollected pledges.

Note 2 - Summary of Significant Accounting Policies (Continued)

- **Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. This category includes true endowment earnings, quasi-endowment principal and earnings, a property annuity, and property assets.

- **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations to be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal.

Revenues - Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as the release of restrictions in the accompanying statement of activities.

Underwater Endowments - An endowment is created when a donor stipulates that only the earnings from the investment of the gift can be spent. If the market value of an endowment drops below the historic gift value, the endowment is considered to be underwater. The net depreciation of an underwater endowment will reduce unrestricted net assets. Any future gains will be used to restore the cumulative deficiency within unrestricted net assets. Once unrestricted net assets have been fully restored, net appreciation will be recorded within either temporarily or permanently restricted net assets, as required by the donor's restriction.

Income Taxes - The Foundation is an Ohio nonprofit organization, tax-exempt under Section 501(c)(3) of the Internal Revenue Code and exempt from federal, state, and local income tax on related income.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents - The Foundation considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair values of investments are based on quoted market prices. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Alternatives are recorded at their most recent available valuation as provided by the investment custodian. Donated investments including donated property are recorded as contributions at fair value on the date received. Realized gains (losses) on investments are the difference between the proceeds received and the average cost of investments sold. Net appreciation in the fair value of investments (including realized gains (losses) and unrealized gains (losses) and dividends and interest) is included in revenues, gains, and other income of unrestricted net assets, unless the net appreciation or investment income is restricted by the donor in a non-underwater account.

Property - Property is recorded at cost at the date of acquisition or estimated fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

Pledges Receivable - The Foundation records pledges and unconditional promises to give as receivables and revenue in the year the pledge is made. Those that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

Fair Value of Financial Instruments - The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and other liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments, pledges receivable, and annuity payment liability are reported at fair value.

Note 2 - Summary of Significant Accounting Policies (Continued)

Credit Risk Concentrations - Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities, and pledges receivable. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Concentration of credit risk for pledges receivable is generally limited due to the dispersion of these balances over a wide base of donors.

Expenses - The Foundation's expenses are classified into two categories: (1) distributions to or for The University of Akron and (2) administration of the Foundation. The expenses relating to the administration of the Foundation include both fund-raising and management and general activities.

New Accounting Pronouncements

Financial Accounting Standards Board (FASB) No. 157, *Fair Value Measurements* (FAS 157), which was issued in September 2006, addresses how organizations should measure fair value when generally accepted accounting principles require use of fair value measurement for recognition or disclosure purposes. This standard is effective for financial statements issued for the fiscal year ending June 30, 2009. Management is currently evaluating the impact of FAS 157.

Financial Accounting Standards Board (FASB) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which was issued in February 2007, extended the availability of the fair value option to a wide range of financial instruments, both assets and liabilities. This standard is effective for financial statements issued for the fiscal year ending June 30, 2009. Management is currently evaluating the impact of FAS 159.

Financial Accounting Standards Board (FASB) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161), which was issued in March 2008, amends and expands the disclosure requirements in FAS 133, *Accounting for Derivative Instruments and Hedging Activities,* and related literature. This statement changes the disclosure requirements for derivative instruments and hedging activities. This statement is effective for financial statements issued for the fiscal years beginning after November 15, 2008, therefore for the fiscal year ending June 30, 2010. Management is currently evaluating the impact of FAS 161.

Reclassifications - Certain amounts from 2007 have been reclassified to conform to the 2008 presentation.

Note 3 - Investments

Investments are stated at fair value. Fluctuations in fair value, as well as gains or losses on sales of securities, are recognized in the statement of activities. Investments as of June 30, 2008 and 2007 were as follows:

	2008	2007
Pooled investment funds managed for the Foundation:		
Smith Group	$ 12,672,677	$ 18,410,512
TCW	9,928,066	-
Marvin & Palmer	-	16,183,356
The Common Fund	107,753	172,940
Advantage Select	-	4,726,378
Dreman Value Management	-	12,177,610
NFJ	15,274,745	13,142,434
Hotchkis & Wiley	-	11,604,383
Alliance	10,841,349	-
Russell 2000 Value Index Fund	-	1,717,621
Essex	2,175,520	3,888,359
Integrity	-	5,377,519
Wasatch Advisors	-	3,615,525
Aletheia	14,355,168	-
Denver	2,401,463	-
ING Global	1,160,001	-
Wentworth	3,099,840	-
Permal	6,248,603	-
Robeco Sage	3,213,849	-
Earnest	3,931,625	-
Merrill Lynch Main Account	6,112	-
Julius Baer	13,592,485	16,569,243
PIMCO	-	14,051,105
Metropolitan West	29,972,470	13,382,571
Total pooled investment funds	128,981,726	135,019,556
Mutual funds	6,234,369	7,152,429
U.S. Treasury obligations	569,883	734,837
Bonds	4,515,406	4,741,003
Premium public funds	2,030,000	-
Commercial paper	7,324,474	8,225,000
Common stocks	736,050	867,070
Money market funds	597,816	874,501
Insurance policies, cash surrender value	280,535	271,770
Total fair value	$ 151,270,259	$ 157,886,166
Total cost	$ 158,753,193	$ 140,230,083

Note 3 - Investments (Continued)

The pooled investment funds are invested in diverse portfolios. Limitations have been placed on the trust fund managers to stay within specified parameters in managing the portfolios.

Approximately 77 percent and 79 percent of the pooled investment funds were invested in common and preferred stocks in a variety of industries and 23 percent and 21 percent were invested in fixed income securities at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, pooled investment funds included alternative investments totaling $9,570,205 and $4,899,318, respectively. Market prices are not available for certain investments, primarily private equity and hedge funds. These investments are carried at estimated fair value provided by the funds' managements. The Foundation believes that the carrying amounts are reasonable estimates of fair value as of June 30, 2008.

The Foundation appropriates a limited portion of the appreciation on investments held by the pooled endowments for distribution to the University and other funds within the Foundation. Actual distributions from endowments are based on a spending policy set by the Foundation's board of directors. Under this spending policy, appropriated income is calculated at 5 percent of the average market value of endowment investments for the prior three years.

The fair value of certain donor-restricted endowments was less than the historic value of such funds by $1,127,690 and $453,364 at June 30, 2008 and 2007, respectively.

Note 4 - Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value. For pledges made during the year ended June 30, 2008, the future expected cash flows from pledges receivable have been discounted using a discount rate of 3.34 percent and 4.59 percent for pledges with durations of five years or less and more than five years, respectively. For pledges made during the year ended June 30, 2007, the future expected cash flows from pledges receivable have been discounted using a discount rate of 4.92 percent.

Note 4 - Pledges Receivable (Continued)

Pledges receivable at June 30, 2008 and 2007 are expected to be realized in the following periods:

	2008	2007
Less than one year	$ 1,621,660	$ 1,750,273
One to five years	5,696,723	2,548,240
More than five years	6,514,286	79,083
Total	13,832,669	4,377,596
Less amount estimated to be uncollectible	(1,091,436)	(418,390)
Less unamortized discount	(2,918,311)	(193,693)
Total pledges receivable - Net	$ 9,822,922	$ 3,765,513

As of June 30, 2008, the Foundation has $42,404,137 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable or recognized as revenue because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

Note 5 - Property

Property consists of the following at June 30, 2008 and 2007:

			Totals	
	Nondepreciable	Depreciable	2008	2007
Brown Street Property	$ 81,000	$ -	$ 81,000	$ 81,000
Union Street Property	126,460	-	126,460	126,460
Miller Parkway Land	155,825	-	155,825	155,825
E. Exchange Street Property	401,385	-	401,385	401,385
Torrey Street Property	6,814	160,426	167,240	167,240
Avery Place Property	12,017	-	12,017	12,017
South Arlington Street Land	220,000	-	220,000	220,000
Heritage Centre Lot A	1,600,000	-	1,600,000	1,600,000
Heritage Centre Lot B	1,300,000	-	1,300,000	1,300,000
Heritage Centre Lot C	1,150,000	-	1,150,000	1,150,000
Heritage Centre Lot D	600,000	-	600,000	600,000
Dale Street Property	27,460	82,540	110,000	-
Less accumulated depreciation	-	(162,077)	(162,077)	(160,426)
Total property - Net	$ 5,680,961	$ 80,889	$ 5,761,850	$ 5,653,501

Note 6 - Related Party Transactions with the University

The Foundation may receive gifts on behalf of the University. The Foundation records a contribution payable to the University for such gifts. In 2008 and 2007, the Foundation recorded $1,434,338 and $956,365, respectively, of contribution revenue for amounts received on behalf of the University.

Note 7 - Split-interest Agreements

The Foundation has entered into charitable gift annuity agreements which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then the unrestricted assets of the Foundation will be utilized to fund future payments.

The Foundation has also entered into unitrust, annuity trust, and pooled income agreements which include provisions for the Foundation to pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until death of the beneficiaries. Upon death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of the gift and by recording the actuarial present value of the annuities payable using the applicable IRS tables (discount rates used at June 30, 2008 and 2007 were 3.8 percent and 5.6 percent, respectively) based on the term of the agreement, as a liability. The balance of the gift is recorded as unrestricted, temporarily restricted, or permanently restricted contributions, as appropriate.

The Foundation's payments to beneficiaries under the split-interest agreements reduce the annuity liability. Adjustments to the annuity liability are made to report amortization of the discount and record changes in the life expectancy of the beneficiary. These adjustments, as well as the return on the underlying investment assets (fair value of $19,841,955 and $21,001,112 at June 30, 2008 and 2007, respectively), are recognized in the statement of activities as changes in the value of split-interest agreements.

Note 8 - Beneficial Interest in Lead Trusts

The Foundation has irrevocable rights to receive a portion of the specified cash flows from certain charitable lead trusts. The recorded beneficial interest in the lead trusts is based on the present value of the future cash flows to the Foundation using a discount rate of 4.89 percent. Due to the time restriction of the Foundation's access to the assets held in these trusts, the Foundation's interests in the lead trusts are recorded as temporarily and permanently restricted net assets as applicable. Adjustments to the carrying value of the trusts and income distributions received are recognized as increases or decreases in temporarily and permanently restricted net assets.

Note 9 - Beneficial Interest in Real Estate

The Foundation has the irrevocable right to receive ownership of certain real estate. The donor has retained the right to the use of the real estate for the donor's lifetime. The fair value of the real estate (based upon an independent appraisal) is reported as a beneficial interest in real estate and as temporarily restricted net assets. Also, based on the agreement, the Foundation is required to pay periodic fixed payments to the donor during his lifetime. The Foundation recorded the present value of this annuity payable using the applicable IRS tables (discount rates used at June 30, 2008 and 2007 were 3.8 percent and 5.6 percent, respectively), based on the term of the agreement, as a liability.

Note 10 - Line of Credit

On January 2, 2007, the Foundation obtained a $5,000,000 revolving line of credit with National City Bank. Interest on the revolver is at a fluctuating rate of LIBOR Flex plus 0.40 percent per annum. At June 30, 2008, interest on the revolver was at 2.86 percent. There were no borrowings outstanding under this agreement at June 30, 2008 and 2007. The Foundation is not required to pay a fee on the unused line of credit.

Note 11 - Net Assets

Unrestricted net assets at June 30, 2008 and 2007 are as follows:

	2008	2007
Current operations	$ 482,186	$ 1,019,225
Board designated	7,271,367	7,930,663
Underwater endowment adjustment	(1,127,690)	(453,364)
Total	$ 6,625,863	$ 8,496,524

Temporarily restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2008 and 2007, are as follows:

	2008	2007
Accumulated appreciation on endowment investments in accordance with the spending policy	$ 31,636,156	$ 43,896,020
Specific purpose funds	18,850,906	18,446,497
Split-interest agreements	40,682	56,301
Pledges receivable	9,199,028	1,240,653
Total	$ 59,726,772	$ 63,639,471

Permanently restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2008 and 2007 are as follows:

	2008	2007
Endowment funds	$ 79,737,132	$ 73,538,608
Split-interest agreements	7,956,540	10,643,235
Pledges receivable	623,894	2,524,860
Total	$ 88,317,566	$ 86,706,703

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships and development of the University in the amount of $12,157,093 and $8,457,452 during fiscal 2008 and 2007, respectively.

Note 12 - University Services

The University allocated certain overhead expenses to the Foundation totaling $349,552 and $348,244 in fiscal 2008 and 2007, respectively. These amounts are recorded as "services performed by University personnel" in the statement of activities.

Note 13 - Revocable Trust

In February 1987, the Foundation was named beneficiary of a revocable trust which has investments totaling $95,285 and $118,001 at June 30, 2008 and 2007, respectively (on a fair value basis). The fair values of the trust's assets have been included in the statement of financial position as investment and refundable advances. All income of the trust is paid to the Foundation and recognized when received.

Note 14 - Note Payable

Note payable consists of an unsecured note to an unrelated third party. The note bears no interest and the unpaid balance is due January 10, 2011.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The University of Akron Foundation

We have audited the financial statements of the University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As explained in Note 3, the financial statements include investments valued at $9,570,205 (6 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by fund managers or the general partners.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

To the Board of Directors
The University of Akron Foundation

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph or this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

The University of Akron Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit The University of Akron Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Foundation's board of directors, management of the Foundation, and the auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 16, 2008
Toledo, Ohio

Reference Number	Findings
2008-1	**Finding Type** - Significant deficiency

Criteria - The Foundation began investing in alternative investments within the past year, a significant amount of which was purchased at the end of the fiscal year. With respect to valuation, management is responsible for making the fair value measurements and disclosures included in the financial statements. As part of fulfilling its responsibility, management is required to establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare the valuation, and ensure that the presentation and disclosure of the fair value measurements are in accordance with GAAP. Management must have sufficient information to evaluate and independently challenge the fund's valuation.

Condition - The Foundation relied solely upon the values provided by the investment custodian for the June 30, 2008 balances.

Cause - Determining the value of investments for which market value is not readily determinable can be difficult.

Effect or Potential Effect - The Foundation recorded the value based on the value provided by the investment custodian.

Recommendation - We recommend that the Foundation develop procedures which will enable the Foundation to confirm and evaluate the values provided to the Foundation by the investment custodians. In 2006, the AICPA issued a practice aid for auditors related to alternative investments. This practice aid provides guidance on valuation and examples of due diligence, ongoing monitoring, and financial reporting controls related to alternative investments.

Reference Number	Findings
2008-1 (Cont'd)	**Views of Responsible Officials and Planned Corrective Actions** - The Foundation is developing a process that will allow it to obtain sufficient information to evaluate and independently challenge the valuations of its alternative investments. This process will focus first at the fund management level where an understanding of the underlying investments will be developed as well as the risks associated with them. An ongoing dialogue will be established with the managers of the funds in order to provide assurance that the appropriate due diligence is being performed. The process will also focus on Merrill Lynch, the Foundation's investment consultant. Merrill Lynch will be required to report periodically during the year on their alternative investments due diligence program in general and specifically on their due diligence efforts directed toward the managers of the Foundation's alternative investments funds. The combination of the due diligence performed on the investment managers by both the Foundation and Merrill Lynch and the due diligence performed on Merrill Lynch by the Foundation will provide a level of assurance that the values provided to the Foundation by the investment custodian are valid.

Reference Number	Findings
2008-2	**Finding Type** - Significant deficiency

Criteria - An entity should have appropriate segregation of duties as a part of the processes and controls for employees who complete account reconciliations. Employees involved in the account reconciliation process should not have the ability to post journal entries in the general ledger.

Condition - There is a lack of segregation of duties with respect to the Foundation. There is no review or approval of the recording of manual journal entries. Estimates and assumptions used to determine present value amounts and allowance for pledges receivable are not reviewed and approved by anyone. The reconciliation of investment holdings to statements or summaries provided by investment custodians or counterparties is not completed by individuals restricted from accessing investment transactions and cash disbursement, cash transfer, and journal entry functions. There is no second review of management's financial statements prior to the annual external audit. We recommend that a second review of the financial statements be completed prior to the annual external audit. This review should be completed by an individual who is knowledgeable of transactions of the Foundation.

Cause - The University of Akron Foundation has a limited number of employees given the volume of activity and resources available.

Effect or Potential Effect - A lack of segregation of duties can result in inaccurate financial reporting or misappropriation of assets.

Recommendation - We recommend that the Foundation consider establishing an approval and review process to minimize the risk associated with posting manual journal entries, generating estimates, and preparing account reconciliations. The financial statements should include a second review prior to the external audit and by an individual with knowledge of Foundation activity.

Views of Responsible Officials and Planned Corrective Actions - The University's Associate Vice President for Treasury and Financial Planning will review and approve the manual journal entries made by the Senior Treasury Manager; review and approve the estimates and assumptions used to determine present value amounts and allowance for pledges receivables; review the investment holdings reconciliation process; and review the financial statements prior to the annual external audit.

Mary Taylor, CPA
Auditor of State

THE UNIVERSITY OF AKRON FOUNDATION

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 31, 2008

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