

# **The University of Akron Foundation**

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**Consolidated Financial Statements  
with Additional Information  
June 30, 2013 and 2012**





# Dave Yost • Auditor of State

Board of Directors  
The University of Akron Foundation  
302 Buchtel Common  
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, 2012 through June 30, 2013. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 30, 2013

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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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of The University of Akron, which comprise the consolidated statement of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements.

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

To the Board of Directors  
The University of Akron Foundation

**Opinion**

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

**Emphasis of Matter**

As explained in Note 14, the consolidated financial statements include investments valued at approximately \$21,361,000 (13 percent of net assets) at June 30, 2013 and \$19,993,000 (14 percent of net assets) at June 30, 2012, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the investment fund managers.

**Other Matters**

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the consolidated financial statements of The University of Akron Foundation taken as a whole. The consolidating information, as identified on pages 32 and 33, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013 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, grant agreements, and other matters. 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 34 and 35 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Foundation's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 9, 2013



# The University of Akron Foundation

## Consolidated Statement of Financial Position

	June 30	
	2013	2012
<b>Assets</b>		
Cash	\$ 1,578,634	\$ 1,610,531
Accounts and notes receivable	321,048	928,003
Pledges receivable - Net of allowance and discount (Note 3)	9,591,431	11,935,118
Investments - At fair value (Note 4)	147,805,142	134,798,783
Investments held for others (Notes 4 and 5)	2,479,641	2,681,897
Property - Net (Note 6)	13,869,606	8,403,102
Net investment in direct financing lease (Note 7)	90,164	117,211
Beneficial interest in real estate (Note 8)	335,000	335,000
Total assets	<u>\$ 176,070,666</u>	<u>\$ 160,809,645</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 32,069	\$ 536,798
Amounts payable to the University (Note 9)	168,069	237,243
Deposit - Austen BioInnovation Institute in Akron (Note 5)	2,473,663	2,562,247
Deposit - University Park Alliance (Note 5)	5,721	100,710
Deposit - Akron Civility Project (Note 5)	257	18,940
Deferred revenue	31,595	34,377
Line of credit (Note 10)	5,191,000	-
Annuity/unitrust agreements and refundable advances (Notes 8 and 11)	14,251,586	14,531,670
Total liabilities	22,153,960	18,021,985
<b>Net Assets</b>		
Unrestricted (Note 12)	4,816,158	709,800
Temporarily restricted (Note 12)	51,132,358	46,575,793
Permanently restricted (Note 12)	97,968,190	95,502,067
Total net assets	<u>153,916,706</u>	<u>142,787,660</u>
Total liabilities and net assets	<u>\$ 176,070,666</u>	<u>\$ 160,809,645</u>

# The University of Akron Foundation

## Consolidated Statement of Activities Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Additions (Reductions)</b>				
Contributions	\$ 242,152	\$ 6,534,819	\$ 1,943,935	\$ 8,720,906
Net change in the fair value of investments	3,276,961	6,570,300	563,681	10,410,942
Change in fair value of annuity/unitrust agreements	(88,304)	(52)	652,655	564,299
Gain on sale of property	233,186	-	-	233,186
Dividend and interest income (loss)	1,804,071	(323,125)	33,942	1,514,888
Rental income	74,478	1,550	13,189	89,217
Other income	34,952	110,206	-	145,158
Total revenue and other additions - Net	5,577,496	12,893,698	3,207,402	21,678,596
<b>Release of Restrictions</b>	9,078,412	(8,864,631)	(213,781)	-
Total revenue and other additions and release of restrictions	14,655,908	4,029,067	2,993,621	21,678,596
<b>Expenses</b>				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 13)	9,110,937	-	-	9,110,937
Distributions on behalf of the University	645,062	-	-	645,062
Administration of the Foundation:				
Services performed by University personnel (Note 13)	421,466	-	-	421,466
Professional fees	155,956	-	-	155,956
Office expenses	30,498	-	-	30,498
Other expenses	185,631	-	-	185,631
Total expenses	10,549,550	-	-	10,549,550
<b>Change in Donor Designation</b>	-	527,498	(527,498)	-
<b>Change in Net Assets</b>	4,106,358	4,556,565	2,466,123	11,129,046
<b>Net Assets - Beginning of year</b>	709,800	46,575,793	95,502,067	142,787,660
<b>Net Assets - End of year</b>	<u>\$ 4,816,158</u>	<u>\$ 51,132,358</u>	<u>\$ 97,968,190</u>	<u>\$ 153,916,706</u>

# The University of Akron Foundation

## Consolidated Statement of Activities Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Additions (Reductions)</b>				
Contributions	\$ 45,187	\$ 5,355,563	\$ 7,016,670	\$ 12,417,420
Net change in the fair value of investments	(2,095,935)	(2,027,068)	(46,784)	(4,169,787)
Change in fair value of annuity/unitrust agreements	(131,233)	(1,208)	(1,264,739)	(1,397,180)
Loss on sale of property	-	-	(359,000)	(359,000)
Dividend and interest income (loss)	1,612,093	(148,775)	1,681	1,464,999
Other income	1,665	71,480	11,154	84,299
Total revenue and other additions - Net	(568,223)	3,249,992	5,358,982	8,040,751
<b>Release of Restrictions</b>	8,147,156	(7,923,601)	(223,555)	-
Total revenue and other additions and release of restrictions	7,578,933	(4,673,609)	5,135,427	8,040,751
<b>Expenses</b>				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 13)	7,894,774	-	-	7,894,774
Distributions on behalf of the University	1,002,772	-	-	1,002,772
Administration of the Foundation:				
Services performed by University personnel (Note 13)	418,879	-	-	418,879
Professional fees	128,404	-	-	128,404
Office expenses	21,871	-	-	21,871
Other expenses	171,151	-	-	171,151
Total expenses	9,637,851	-	-	9,637,851
<b>Change in Donor Designation</b>	-	638,213	(638,213)	-
<b>Change in Net Assets</b>	(2,058,918)	(4,035,396)	4,497,214	(1,597,100)
<b>Net Assets - Beginning of year</b>	2,768,718	50,611,189	91,004,853	144,384,760
<b>Net Assets - End of year</b>	<u>\$ 709,800</u>	<u>\$ 46,575,793</u>	<u>\$ 95,502,067</u>	<u>\$ 142,787,660</u>

# The University of Akron Foundation

## Consolidated Statement of Cash Flows

	Year Ended June 30	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 11,129,046	\$ (1,597,100)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	(10,410,942)	4,169,787
Contributions restricted for long-term investment	(1,943,935)	(7,016,670)
Contributions of property	(185,000)	(1,945,000)
Change in fair value of annuity/unitrust agreements	(564,299)	1,397,180
(Gain) loss on sale of property	(233,186)	359,000
Bad debt expense	205,109	47,066
Pledge discount	526,485	15,031
Changes in operating assets and liabilities:		
Accounts and notes receivable	606,955	(460,190)
Pledges receivable	1,612,093	507,224
Deposit - Austen BioInnovation Institute in Akron	(88,584)	(847,542)
Deposit - University Park Alliance	(94,989)	(679,059)
Deposit - Akron Civility Project	(18,683)	18,940
Accounts payable and other liabilities	(627,291)	(534,011)
Net cash used in operating activities	(87,221)	(6,565,344)
<b>Cash Flows from Investing Activities</b>		
Change in related party promissory note receivable	-	5,007,617
Proceeds from sale of investments	15,658,409	28,504,224
Purchase of investments	(18,051,569)	(30,312,323)
Purchase of property	(5,288,318)	(158,268)
Proceeds from the sale of properties	240,000	951,000
Net cash (used in) provided by investing activities	(7,441,478)	3,992,250
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	1,943,935	7,016,670
Investment subject to annuity agreements	235,000	3,156,929
Other financing activities:		
Net proceeds from (payments on) line of credit	5,191,000	(5,000,000)
Interest and dividends restricted for annuity agreements	117,394	89,349
Net change in restricted annuity agreements	1,287,393	(514,385)
Payments of annuity obligations	(1,277,920)	(1,253,465)
Net cash provided by financing activities	7,496,802	3,495,098
<b>Net Change in Cash</b>	(31,897)	922,004
<b>Cash - Beginning of year</b>	1,610,531	688,527
<b>Cash - End of year</b>	<u>\$ 1,578,634</u>	<u>\$ 1,610,531</u>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	<u>\$ 34,202</u>	<u>\$ 24,275</u>

# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### 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 through the Foundation, including the following:

- Unrestricted and restricted support
- Support for the Crusade for Scholars Program
- Support for the Center for Economic Education
- Support for the Intercollegiate Athletic Program

### 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.

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Foundation and Nash Street LLC, for which the Foundation is the sole member. Nash Street was formed in March 2006 specifically to engage in the acquisition of real property for the benefit of the Foundation and The University of Akron. Nash Street is disregarded for federal income tax purposes and all of its income, losses, deductions, and credits are reported by the Foundation. The first property purchase by Nash Street was made during fiscal year 2013, which is included in property in the consolidated statement of financial position and Note 6. All significant intercompany transactions have been eliminated in consolidation.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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.
- **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, including quasi-endowments which are purpose-restricted donor contributions designated to function as endowments. 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 appreciation earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal.

**Revenue** - Revenue is 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 consolidated statement of activities.

**Underwater Endowments** - In Ohio, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governs the investment of and spending from true endowments. As reported in Note 15, the Foundation has interpreted this act as requiring the preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment fund. Under this interpretation, 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.

# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

**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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - The Foundation considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2013 and 2012, approximately \$4,500,000 and \$5,000,000, respectively, of cash equivalents held as part of the investment pool are classified as investments and are excluded from cash equivalents for the purpose of the consolidated statement of cash flows.

The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash.

# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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 fair market value 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 revenue, gains, and other income of unrestricted net assets, unless the net appreciation or investment income is restricted by the donor or by law.

At June 30, 2013 and 2012, the Foundation has remaining capital commitments for investment in a private equity fund of approximately \$1,690,000 and \$1,885,000, respectively.

**Property** - Property is recorded at cost at the date of acquisition or estimated fair value at the date of donation. Depreciation is recorded if property is rented and is computed over the estimated useful life of the asset, 40 years, using the straight-line method.

**Impairment** - The Foundation annually reviews the recoverability of long-lived assets, including property, for events or changes in circumstances that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. There were no impairment losses for the years ended June 30, 2013 or 2012.



# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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 estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. All investment securities are carried at fair value in the consolidated financial statements. The fair values of short-term financial instruments, including cash equivalents, accounts receivable and payable, and line of credit approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments. The inputs are based upon terms in contractual agreements. The fair values of these financial instruments are determined using Level 2 inputs.

**Credit Risk Concentrations** - Financial instruments which potentially expose the Foundation to concentrations of credit risk include investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains 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.

**Fundraising** - Fundraising costs are charged to expense as incurred. During the years ended June 30, 2013 and 2012, total fundraising costs were approximately \$226,000 and \$325,000, respectively.

# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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 fundraising and management and general activities. Total expenses consisted of expenses related to program services, management and general, and fundraising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that would produce different results.

**Fair Value Option** - The fair value option for financial assets and financial liabilities permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to portions of instruments. Management made the election for the fair value option to provide an accurate portrayal of these balances by discounting the annuity pool given the length of time involved with some of the annuities and by adjusting the refundable advances to their underlying investment's market value.

The fair value of the annuity pool, which relates to the annuity and unitrust agreements, and the fair value of refundable advances, which relates to a revocable trust, is estimated by discounting expected cash inflows and outflows to their present value using appropriate rates with the risk of realizing such cash inflows and outflows. The fair value of the liability of the annuity pool and refundable advances at June 30, 2013 and 2012 is \$14,251,586 and \$14,531,670, respectively.

**Risks and Uncertainties** - The Foundation invests 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 the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including October 9, 2013, which is the date the consolidated financial statements were available to be issued.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 3 - Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable. Pledges are recorded at their approximate present value, discounted using the U.S. Treasury note rate in effect the year the pledge is received. For pledges made during the years ended June 30, 2013 and 2012, the future expected cash flows from pledges receivable have been discounted using a discount rate of 1.41 percent and 0.41 percent, respectively.

Pledges receivable at June 30, 2013 and 2012 are expected to be realized in the following periods:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 1,978,325	\$ 2,556,089
One to five years	4,528,846	5,978,029
More than five years	<u>6,966,576</u>	<u>8,014,910</u>
Total	13,473,747	16,549,028
Less amount estimated to be uncollectible	(821,818)	(1,026,927)
Less unamortized discount	<u>(3,060,498)</u>	<u>(3,586,983)</u>
Total pledges receivable - Net	<u>\$ 9,591,431</u>	<u>\$ 11,935,118</u>

The allowance for uncollectible contributions is a general valuation based on the percentage of prior year pledge write-offs. Specific pledges deemed uncollectible are charged against the allowance for uncollectible pledges in the period in which the determination is made. Both the general allowance and the specific write-offs are reported as reductions in total revenue in the consolidated statement of activities.

As of June 30, 2013, the Foundation has \$35,580,399 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.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 4 - 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 consolidated statement of activities. Investments as of June 30, 2013 and 2012 were as follows:

	2013	2012
Pooled investment funds managed for the Foundation:		
Aletheia Research & Management	\$ -	\$ 3,956,057
Ascend Capital Management	2,282,495	-
BlackRock Vesey Street IV Private Equity	5,574,827	4,985,407
Brevan Howard Asset Management	3,903,249	-
CBRE Clarion Real Estate (formerly ING Global)	4,212,845	3,702,758
Common Fund	17,761	26,418
Denver Investment Advisors	2,965,485	2,424,876
EARNEST Partners	3,992,122	3,306,416
Eaton Vance	7,527,766	7,260,358
Grosvenor	-	5,800,352
Invesco Worldwide	9,487,822	8,858,077
Lazard Asset Management	2,805,348	2,730,047
Lord Abbett & Co.	6,880,070	5,577,079
Main Account	36,012	62,230
MetWest TALF Fund	-	2,413,621
NFJ Investment Group	7,806,235	7,131,113
Oak Associates	5,622,102	4,149,362
Och-Ziff Capital Management	4,816,461	-
Parametric Deltashift	4,962	361,360
PIMCO	20,152,119	20,548,245
Robeco Sage Access Ltd.	-	6,962,594
Sirios Capital Management	2,502,469	-
Smith Group Asset Management	5,197,826	3,843,825
Thornburg Investment Management	12,639,831	11,059,976
WHV Investment Management	3,862,074	3,507,097
Winslow Capital Management	11,136,454	6,762,933
Winton Capital Management	2,264,005	-
Total pooled investment funds	125,690,340	115,430,201
Bonds	8,685,347	6,320,529
Common stocks	1,906,616	1,868,331
Floater	3,007,500	2,045,000
Insurance policies - Cash surrender value	280,453	280,453
Money market funds	2,899,707	4,301,443
Mutual funds	7,291,578	6,554,778
Exchange traded funds	17,867	-
U.S. Treasury obligations	505,375	679,945
Total fair value	<u>\$ 150,284,783</u>	<u>\$ 137,480,680</u>
Total cost	<u>\$ 135,357,583</u>	<u>\$ 132,212,599</u>

# **The University of Akron Foundation**

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## **Notes to Consolidated Financial Statements June 30, 2013 and 2012**

### **Note 4 - 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.

At June 30, 2013 and 2012, in accordance with the Foundation's investment policy, approximately 70 percent of the pooled investment funds were invested in common and preferred stocks in a variety of industries and approximately 9 percent of the pooled investment funds were invested in fixed-income securities. Pooled investment funds also included alternative investments totaling \$21,361,230 and \$19,993,183 at June 30, 2013 and 2012, 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, 2013 and 2012.

### **Note 5 - Deposits**

The Foundation has entered into three agreements to serve as the custodian for non-profit Ohio corporations for educational, scientific, and charitable purposes. As part of these agreements, the Foundation is serving as the custodian until new 501(c)(3) organizations can be established by the corporations. Members of the corporations include the University of Akron and other unrelated entities. As custodian, the Foundation receives grant monies to invest and disburse. The Foundation has no discretion on use of the funds. The grant funds are segregated from the Foundation investment portfolio and invested in accordance with the direction of the member institutions of the corporations.

The Foundation has recorded investments held for the corporations and a corresponding liability for these funds of approximately \$2,480,000 and \$2,682,000 as of June 30, 2013 and 2012, respectively, related to these agreements.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 6 - Property

Property consists of the following at June 30, 2013 and 2012:

	Non- depreciable	Depreciable	Total	
			2013	2012
Avery Place Property	\$ 12,017	\$ -	\$ 12,017	\$ 12,017
Brown Street Property	81,000	-	81,000	81,000
Copley Road Property	200,000	-	200,000	200,000
Covington Road Property	185,000	-	185,000	-
Dale Street Property	27,460	82,540	110,000	110,000
East Exchange Street Property Lot A	401,385	-	401,385	401,385
East Exchange Street Property Lot B	675,195	-	675,195	675,195
East Exchange Street Property Lot C	1,800,000	-	1,800,000	1,800,000
Fir Hill Street Property	391,171	-	391,171	-
Harvey Court Property	41,057	-	41,057	41,057
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
Miller Parkway Land	155,825	-	155,825	155,825
N Pershing Avenue Property	80,000	-	80,000	80,000
Torrey Street Property	-	-	-	167,240
Treeside Drive Property	65,000	-	65,000	65,000
Union Street Property	126,460	-	126,460	126,460
University Village Property	4,897,147	-	4,897,147	-
Less accumulated depreciation	-	(1,651)	(1,651)	(162,077)
Total	<u>\$ 13,788,717</u>	<u>\$ 80,889</u>	<u>\$ 13,869,606</u>	<u>\$ 8,403,102</u>

During the years ended June 30, 2013 and 2012, properties valued at \$185,000 and \$1,945,000, respectively, were donated to the Foundation, and are included in contribution revenue in the consolidated statement of activities.

During the year ended June 30, 2013, property valued at \$6,814 was sold for \$240,000. A gain on sale of property in the amount of \$233,186 was credited to operations for fiscal year. During the year ended June 30, 2012, property valued at \$1,085,000 was sold for \$726,000. A loss on sale of property in the amount of \$359,000 was charged to operations for fiscal year 2012.

### Note 7 - Investment in Direct Financing Lease

On December 1, 2011, the Foundation began leasing property to the University under a direct financing lease. The agreement calls for 60 monthly payments of \$2,254 which consists of both principal and interest imputed at 2.06 percent per annum. As of June 30, 2013, the present value of future payments to be received totaled approximately \$90,000 and \$117,000 respectively as presented on the consolidated statement of financial position.

# **The University of Akron Foundation**

## **Notes to Consolidated Financial Statements June 30, 2013 and 2012**

### **Note 8 - 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 use the real estate for the donor's lifetime. The carrying 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 or her lifetime. The Foundation recorded the present value of this annuity payable using the applicable IRS tables (discount rates used at June 30, 2013 and 2012 were 1.2 percent and 1.6 percent, respectively), based on the term of the agreement, as a liability.

### **Note 9 - Amounts Payable to the University**

The Foundation may at times receive gifts on behalf of the University. At June 30, 2013 and 2012, the Foundation owed the University \$168,069 and \$237,243, respectively, for such gifts received. During the years ended June 30, 2013 and 2012, the Foundation recorded \$2,841,364 and \$2,384,751, respectively, of contribution revenue for amounts received on behalf of the University.

### **Note 10 - Line of Credit**

On May 9, 2012, the Foundation obtained a \$10,000,000 revolving line of credit with Fifth Third Bank. Interest on the revolver is at a fluctuating rate of the rounded one-month LIBOR plus 0.65 percent per annum. At June 30, 2013, the interest rate on the revolver was 0.90 percent. There was \$5,191,000 outstanding on the line of credit at June 30, 2013 and no amounts outstanding under this agreement at June 30, 2012.

Prior to the Foundation's current line of credit, the Foundation had a \$5,000,000 revolving line of credit with PNC Financial Services. Interest on the revolver was at a fluctuating rate of LIBOR Flex plus 0.40 percent per annum. The line of credit was paid off on March 30, 2012 and the agreement expired on April 1, 2012.

The proceeds from the line of credit were used to purchase real estate adjacent to the University during fiscal year 2013. The University has agreed to make payments of principal, interest, loan fees, and any other costs associated with the line of credit as long as the property acquired with the proceeds is owned by the Foundation or the University and not leased by the Foundation to a private person. The Foundation did not charge the University any additional interest on the note. The real estate is included in property in the consolidated statement of financial position and Note 6.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 11 - Annuity and Unitrust 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 the death of the beneficiaries, any remaining property in the trust or pooled income will be available 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, 2013 and 2012 were 1.2 percent and 1.6 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 annuity and unitrust 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 \$17,680,118 and \$17,377,640 at June 30, 2013 and 2012, respectively), are recognized in the consolidated statement of activities as changes in the value of annuity and unitrust agreements.

### Note 12 - Net Assets

Unrestricted net assets at June 30, 2013 and 2012 are as follows:

	2013	2012
Current operations	\$ 7,755,362	\$ 4,945,594
Board-designated	471,237	2,121,423
Underwater endowment adjustment (Note 15)	<u>(3,410,441)</u>	<u>(6,357,217)</u>
Total	<u>\$ 4,816,158</u>	<u>\$ 709,800</u>



# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 12 - Net Assets (Continued)

Temporarily restricted net assets, principally related to scholarships, specific colleges and departments within the University, department chairs, and various other purposes related to support of the University at June 30, 2013 and 2012 are as follows:

	2013	2012
Accumulated appreciation on true endowments	\$ 19,746,576	\$ 13,795,891
Accumulated appreciation on specific purpose funds	2,606,185	3,396,792
Specific purpose funds	19,760,546	18,325,261
Annuity and unitrust agreements	17,593	17,645
Pledges receivable	9,001,458	11,040,204
Total	<u>\$ 51,132,358</u>	<u>\$ 46,575,793</u>

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, 2013 and 2012 are as follows:

	2013	2012
Endowment funds (Note 15)	\$ 93,701,949	\$ 91,599,941
Annuity and unitrust agreements	3,676,266	3,007,212
Pledges receivable	589,975	894,914
Total	<u>\$ 97,968,190</u>	<u>\$ 95,502,067</u>

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 \$9,078,412 and \$8,147,156 during fiscal years 2013 and 2012, respectively.

During the years ended June 30, 2013 and 2012, donors agreed to release \$527,498 and \$638,213, respectively, in permanently restricted net assets for the purpose of paying back deficiencies resulting from unfavorable market fluctuations. See Note 15 for additional information.

### Note 13 - Transactions with the University

The Foundation and the University regularly transfer funds between one another. The net amount of these transfers is recorded as "direct distributions to the University" in the consolidated statement of activities. For the years ended June 30, 2013 and 2012, distributions transferred to the University of \$9,459,116 and \$9,885,308, respectively, are gross of amounts received from the University of \$348,179 and \$1,990,534, respectively.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 13 - Transactions with the University (Continued)

The University allocated certain overhead expenses to the Foundation totaling \$421,466 and \$418,879 in fiscal years 2013 and 2012, respectively. These amounts are recorded as “services performed by University personnel” in the consolidated statement of activities.

### Note 14 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Foundation’s policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2013 and 2012, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Foundation’s assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and 2012 and the valuation techniques used by the Foundation to determine those fair values.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 14 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2013

	Balance at June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets - Investments</b>				
Pooled investment funds managed for the Foundation less cash equivalents (Note 2)	\$ 121,206,134	\$ 89,207,579	\$ 10,637,325	\$ 21,361,230
Bonds	8,685,347	-	8,685,347	-
Common stocks	1,906,616	1,906,616	-	-
Exchange traded funds	17,867	17,867	-	-
Floater	3,007,500	-	3,007,500	-
Money market mutual funds	2,899,707	2,899,707	-	-
Mutual funds	7,291,578	7,291,578	-	-
U.S. Treasury obligations	505,375	505,375	-	-
Beneficial interest in real estate	335,000	-	-	335,000
<b>Liabilities</b>				
Annuity/unitrust agreements and refundable advances	(14,251,586)	-	-	(14,251,586)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Balance at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets - Investments</b>				
Pooled investment funds managed for the Foundation less cash equivalents (Note 2)	\$ 110,449,378	\$ 80,412,243	\$ 10,043,952	\$ 19,993,183
Bonds	6,320,529	-	6,320,529	-
Common stocks	1,868,331	1,868,331	-	-
Floater	2,045,000	-	2,045,000	-
Money market mutual funds	4,301,443	4,301,443	-	-
Mutual funds	6,554,778	6,554,778	-	-
U.S. Treasury obligations	679,945	679,945	-	-
Beneficial interest in real estate	335,000	-	-	335,000
<b>Liabilities</b>				
Annuity/unitrust agreements and refundable advances	(14,531,670)	-	-	(14,531,670)

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 14 - Fair Value Measurements (Continued)

Included in the Level 1 money market mutual funds above is approximately \$2,600,000 and \$4,100,000 invested in a PNC Fidelity Prime Money Market Fund. Included in the Level 2 pooled investment funds above is approximately \$6,350,000 and \$3,470,000 invested in U.S. Treasury obligations as of June 30, 2013 and 2012, respectively. Also included in the Level 2 pooled investment funds above is approximately \$4,280,000 and \$6,570,000 invested in FNMA and FHLMC securities as of June 30, 2013 and 2012, respectively. All investment allocations are in accordance with the Foundation's investment policy as described on page 23. No other significant concentrations of investments exist as of June 30, 2013 or 2012.

#### Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

	Hedge Funds	Private Equity Funds	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2012	\$ 12,762,775	\$ 7,230,408	\$ 335,000	\$ (14,531,670)
Total gains (losses) included in changes in net assets:				
Unrealized	997,680	633,131	-	573,473
Realized	4,076	(58,432)	-	-
Purchases	14,771,000	195,000	-	-
Sales	(12,766,851)	(2,407,557)	-	(293,389)
Balance at June 30, 2013	<u>\$ 15,768,680</u>	<u>\$ 5,592,550</u>	<u>\$ 335,000</u>	<u>\$ (14,251,586)</u>

#### Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis at June 30, 2012

	Hedge Funds	Private Equity Funds	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2011	\$ 13,233,339	\$ 7,513,400	\$ 335,000	\$ (12,122,344)
Total gains (losses) included in changes in net assets:				
Unrealized	(470,564)	100,912	-	(1,376,645)
Realized	-	(42,329)	-	-
Purchases	-	520,000	-	-
Sales	-	(861,575)	-	(1,032,681)
Balance at June 30, 2012	<u>\$ 12,762,775</u>	<u>\$ 7,230,408</u>	<u>\$ 335,000</u>	<u>\$ (14,531,670)</u>

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 14 - Fair Value Measurements (Continued)

#### Investment Policies

The Foundation has adopted investment policies in accordance with the objectives of its investment committee. The strategic allocation policy for all investments at June 30, 2013 and 2012 is as follows:

	Minimum	Target	Maximum
Domestic equities:	20%	38%	70%
Large-cap value	10%	16.5%	30%
Large-cap growth	10%	16.5%	30%
Small/Mid-cap equity	-	5%	10%
International equities	5%	23%	35%
Fixed income *	15%	18%	75%
Core	15%	16%	70%
High yield	-	2%	5%
Alternative investments **	-	21%	25%
Hedge funds:	-	13%	17%
Private equity	-	5%	5%
Global real estate	-	3%	3%
Cash ***	-	-	20%

\* Fixed income - Holdings primarily consist of domestic (U.S.) fixed-income securities of investment grade (at least BBB or Baa) with adequate liquidity. Securities that are issued or guaranteed by the U.S. Treasury or government agencies and instruments are considered to be AAA rated. This includes bond instruments with maturities greater than one year, which in turn may include notes, debentures, mortgages, and U.S. government securities (including agencies and TIPS). Agency, government, and high grade corporate bond holdings are investment grade.

\*\* Alternative investments - Holdings are limited to institutional quality investments in private equity, venture capital, buy-out funds, private debt, distressed debt, and hedge funds.

\*\*\* Cash - Includes investments in fixed-income securities with maturities of less than one year, including but not limited to government notes and bills, commercial paper, bankers' acceptances, certificates of deposit, asset-backed securities, eurodollar securities, and debentures and mortgages with less than one year remaining.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 14 - Fair Value Measurements (Continued)

#### Measurement of Level 3 Assets and Liabilities

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Unobservable Inputs Used to Measure Level 3 Assets and Liabilities

	Fair Value at		Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
	June 30, 2013	June 30, 2012			
<b>Assets</b> - Beneficial interest in real estate	\$ 335,000	\$ 335,000	Market comparables	Third party appraisal	100%
<b>Liabilities</b> - Annuity/unitrust agreements and refundable advances	\$ (14,251,586)	\$ (14,531,670)	IRS Pub 590 actuarial tables Discounted cash flow	Life expectancy of beneficiaries Risk free rate of return	3.8 - 61.1 years 1 - 2%

Investments categorized as Level 3 assets primarily consist of hedge funds and private equity funds. The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements of investments. These processes include regular meetings with the Foundation's investment committee for calibration and review of Level 3 investment monthly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over the counter market. The Foundation utilizes a third party investment manager to monitor, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

Annuity and unitrust agreement liabilities characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. Refundable advances characterized as Level 3 liabilities consist of revocable trusts. The Foundation estimates the fair value of these liabilities based upon the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of annuitants, payment periods, and a discount rate commensurate with the current market and other risks involved. Significant changes in these key assumptions would result in a significantly lower or higher fair value measurement.

The Foundation measures property on a nonrecurring basis and records an impairment charge to the extent the carrying value of the asset is greater than fair value. The fair value of the property is based primarily on Level 3 inputs including a sales comparison method using the property's competitive market area. There were no impairment charges for the years ended June 30, 2013 or 2012.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 14 - Fair Value Measurements (Continued)

#### Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Certain investments measured at net asset value per share (or its equivalent) may be classified within Level 2 of the fair value hierarchy if the investment can be redeemed at, or within a specified number of days of the measurement date. If the investment holdings cannot be redeemed at, or within this timeframe, due to redemption restrictions or other factors, then the investment is classified within Level 3 of the fair value hierarchy. At June 30, 2013 and 2012, all of the Foundation's investments measured at net asset value per share (or its equivalent) are classified within Level 3 of the fair value hierarchy.

At June 30, 2013 and 2012, the fair value, net of cash equivalents, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2013		June 30, 2012		Redemption Frequency	Redemption Notice Period
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments		
Ascend Access Hedge Fund	\$ 2,282,495	\$ -	\$ -	\$ -	Monthly	At least 20 days
BlackRock Vesey Street Fund IV	5,574,790	-	4,790,370	-	None	N/A
Brevan Howard Hedge Fund	3,903,249	-	-	-	Quarterly	At least 99 days
CommonFund Private Equity Partners II	17,760	-	26,417	-	None	N/A
Grosvenor Hedge Fund	-	-	5,800,181	-	None	N/A
MetWest TALF Fund	-	-	2,413,621	-	None	N/A
ML Winton Hedge Fund	2,264,005	-	-	-	Semi-Monthly	At least 8 days
Och Ziff Hedge Fund	4,816,462	-	-	-	Quarterly	At least 45 days
Robeco Sage Hedge Fund	-	-	6,962,594	-	Quarterly	At least 45 days
Sirios Hedge Fund	2,502,469	-	-	-	Monthly	At least 45 days
Total	<u>\$ 21,361,230</u>	<u>\$ -</u>	<u>\$ 19,993,183</u>	<u>\$ -</u>		

The Ascend Access Hedge Fund pursues a long/short equity strategy to diversify risk and reduce volatility. The fair value of the Ascend Access Hedge Fund was estimated using the net asset value per share of the investments.

The BlackRock Vesey Street Fund IV's objective is to seek superior capital appreciation through investments in private equity, while reducing risk through portfolio construction and diversification. The fair value of the BlackRock Vesey Street Fund IV was estimated using the net asset value per share of the investments.

# **The University of Akron Foundation**

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## **Notes to Consolidated Financial Statements June 30, 2013 and 2012**

### **Note 14 - Fair Value Measurements (Continued)**

The Brevan Howard Hedge Fund pursues global macro strategy to diversify risk and reduce volatility. Redemptions are subject to the Fund's ability to redeem from the underlying offshore fund. The fair value of the Brevan Howard Hedge Fund was estimated using the net asset value per share of the investments.

CommonFund Private Equity Partners II invests primarily in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities, and other obligations of distressed businesses and financially troubled companies. The fair value of the CommonFund Private Equity Partners II was estimated using the net asset value per share of the investments.

The Grosvenor Hedge Fund invests in over 50 portfolio funds to pursue multiple strategies globally to diversify risks and reduce volatility. The strategies used fall within four categories: distressed securities, event driven, long/short equity, and multi-arbitrage. The proportion of funds invested in each category can vary over time. At June 30, 2012, approximately 16 percent was invested in distressed securities, 19 percent in event driven, 35 percent in long/short equity, and 30 percent in multi-arbitrage. The fair value of the Grosvenor Hedge Fund was estimated using the net asset value per share of the investments. During the year ended June 30, 2013, the Foundation sold all shares of the Grosvenor investment.

As one of the federal government's efforts to stimulate economic activity and promote orderly and liquid capital markets, the Term Asset-Backed Securities Loan Facility (TALF) was unveiled in early 2009 to attract capital to consumer lending markets such as auto loans and leases, credit cards, student loans, and equipment leases. The MetWest TALF Fund was established to capitalize on the program. The fair value of the MetWest TALF Fund was estimated using the net asset value per share of the investments. During the year ended June 30, 2013, the Foundation sold all shares of the MetWest TALF investment.

The ML Winton Hedge Fund pursues a managed futures strategy to diversify risk and reduce volatility. The fair value of the ML Winton Hedge Fund was estimated using the net asset value per share of the investments.

The Och Ziff Hedge Fund pursues an event driven and credit strategy to diversify risk and reduce volatility. Redemptions are subject to a 2 percent redemption fee if redeemed in the first 24 months of ownership. For the current holdings, the time provision will be satisfied in June 2015. The fair value of the Och Ziff Hedge Fund was estimated using the net asset value per share of the investments.



# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### **Note 14 - Fair Value Measurements (Continued)**

The Robeco Sage Hedge Fund uses over 30 managers to pursue multiple strategies globally to diversify risks and reduce volatility. The strategies used fall within three categories: long/short equity, event driven, and active trading. The proportion of funds invested in each category can vary over time. At June 30, 2012, approximately 35 percent was invested in long/short equity, 32 percent in event driven, 25 percent in active trading, and the remaining 8 percent in cash and accruals. The fair value of the Robeco Sage Hedge Fund was estimated using the net asset value per share of the investments. During the year ended June 30, 2013, the Foundation sold all shares of the Robeco Sage investment.

The Sirios Hedge Fund pursues a long/short equity strategy to diversify risk and reduce volatility. The fair value of the Sirios Hedge Fund was estimated using the net asset value per share of the investments.

### **Note 15 - Donor-restricted and Board-designated Endowments**

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 UPMIFA.

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 15 - Donor-restricted and Board-designated Endowments (Continued)

In accordance with UPMIFA, 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
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (3,319,665)	\$ 16,602,661	\$ 93,701,949	\$ 106,984,945
Board-designated (quasi-endowment)	<u>3,876,468</u>	<u>-</u>	<u>-</u>	<u>3,876,468</u>
Total funds	<u>\$ 556,803</u>	<u>\$ 16,602,661</u>	<u>\$ 93,701,949</u>	<u>\$ 110,861,413</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ (2,523,657)	\$ 13,795,891	\$ 91,599,941	\$ 102,872,175
Investment return:				
Investment (loss) income	(18,516)	(449,297)	20,174	(447,639)
Net appreciation	<u>3,297,643</u>	<u>5,312,166</u>	<u>563,681</u>	<u>9,173,490</u>
Total investment return	3,279,127	4,862,869	583,855	8,725,851
Contributions	-	-	2,166,626	2,166,626
Appropriation of endowment assets for expenditure	(151,551)	(2,610,194)	(213,781)	(2,975,526)
Other changes:				
Change in donor designations	(47,116)	554,095	(447,881)	59,098
Rental income	<u>-</u>	<u>-</u>	<u>13,189</u>	<u>13,189</u>
Endowment net assets - End of the year	<u>\$ 556,803</u>	<u>\$ 16,602,661</u>	<u>\$ 93,701,949</u>	<u>\$ 110,861,413</u>

# The University of Akron Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 15 - Donor-restricted and Board-designated Endowments (Continued)

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (6,274,564)	\$ 13,795,891	\$ 91,599,941	\$ 99,121,268
Board-designated (quasi-endowment)	3,750,907	-	-	3,750,907
Total funds	<u>\$ (2,523,657)</u>	<u>\$ 13,795,891</u>	<u>\$ 91,599,941</u>	<u>\$ 102,872,175</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ (274,164)	\$ 17,943,385	\$ 86,113,710	\$ 103,782,931
Investment return:				
Investment income (loss)	(11,468)	(250,596)	(14,991)	(277,055)
Net appreciation	<u>(2,043,244)</u>	<u>(1,743,757)</u>	<u>(46,784)</u>	<u>(3,833,785)</u>
Total investment return	(2,054,712)	(1,994,353)	(61,775)	(4,110,840)
Contributions	-	-	6,708,853	6,708,853
Appropriation of endowment assets for expenditure	(148,587)	(2,650,098)	(223,555)	(3,022,240)
Other changes:				
Change in donor designations	(46,194)	496,957	(589,446)	(138,683)
Asset impairment	-	-	(359,000)	(359,000)
Rental income	<u>-</u>	<u>-</u>	<u>11,154</u>	<u>11,154</u>
Endowment net assets - End of the year	<u>\$ (2,523,657)</u>	<u>\$ 13,795,891</u>	<u>\$ 91,599,941</u>	<u>\$ 102,872,175</u>

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,410,441 and \$6,357,217 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

# The University of Akron Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### **Note 15 - Donor-restricted and Board-designated Endowments (Continued)**

During the years ended June 30, 2013 and 2012, donors released a portion of a permanently restricted endowment fund. The release of \$527,498 and \$638,213, respectively, is shown on the consolidated statement of activities as changes in donor designation.

#### **Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average net rate of return of approximately 9.25 percent annually. Actual returns in any given year 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### **Spending Policy and Investment Objectives Related to Spending Policy**

The Foundation investment and spending policy stipulates that 5 percent of a three-year rolling average of the market value of the endowment is available to spend, 1.5 percent of the three-year moving average of the market value of the endowment is available for support of the Foundation's administrative expenses, and the remaining income is to be reinvested. If an investment loss is incurred, the loss is allocated entirely as currently expendable. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2.75 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## **Additional Information**

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# The University of Akron Foundation

## Consolidating Statement of Financial Position June 30, 2013

	University of Akron Foundation	Nash Street, LLC	Eliminations	Total
<b>Assets</b>				
Cash	\$ 1,576,168	\$ 2,466	\$ -	\$ 1,578,634
Accounts and notes receivable	5,182,042	7,219	(4,868,213)	321,048
Pledges receivable - Net of allowance and discount	9,591,431	-	-	9,591,431
Investments - At fair value	147,805,142	-	-	147,805,142
Investments held for others	2,479,641	-	-	2,479,641
Property - Net	8,972,459	4,897,147	-	13,869,606
Net investment in direct financing lease	90,164	-	-	90,164
Beneficial interest in real estate	335,000	-	-	335,000
Total assets	<b>\$ 176,032,047</b>	<b>\$ 4,906,832</b>	<b>\$ (4,868,213)</b>	<b>\$ 176,070,666</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 23,142	\$ 4,877,140	\$ (4,868,213)	\$ 32,069
Amounts payable to the University	168,069	-	-	168,069
Deposit - Austen BioInnovation Institute in Akron	2,473,663	-	-	2,473,663
Deposit - University Park Alliance	5,721	-	-	5,721
Deposit - Akron Civility Project	257	-	-	257
Deferred revenue	31,595	-	-	31,595
Line of credit	5,191,000	-	-	5,191,000
Annuity/unitrust agreements and refundable advances	14,251,586	-	-	14,251,586
Total liabilities	22,145,033	4,877,140	(4,868,213)	22,153,960
<b>Net Assets</b>				
Unrestricted	4,786,466	29,692	-	4,816,158
Temporarily restricted	51,132,358	-	-	51,132,358
Permanently restricted	97,968,190	-	-	97,968,190
Total net assets	153,887,014	29,692	-	153,916,706
Total liabilities and net assets	<b>\$ 176,032,047</b>	<b>\$ 4,906,832</b>	<b>\$ (4,868,213)</b>	<b>\$ 176,070,666</b>

# The University of Akron Foundation

## Consolidating Statement of Activities Year Ended June 30, 2013

	University of Akron Foundation - Unrestricted	Nash Street, LLC - Unrestricted	Total - Unrestricted	University of Akron Foundation		Total
				Temporarily Restricted	Permanently Restricted	
<b>Revenue and Other Additions (Reductions)</b>						
Contributions	\$ 242,152	\$ -	\$ 242,152	\$ 6,534,819	\$ 1,943,935	\$ 8,720,906
Net change in the fair value of investments	3,276,961	-	3,276,961	6,570,300	563,681	10,410,942
Change in fair value of annuity/unitrust agreements	(88,304)	-	(88,304)	(52)	652,655	564,299
Gain on sale of property	233,186	-	233,186	-	-	233,186
Dividend and interest income (loss)	1,804,013	58	1,804,071	(323,125)	33,942	1,514,888
Rental income	2,071	72,407	74,478	1,550	13,189	89,217
Other income	34,952	-	34,952	110,206	-	145,158
Total revenue and other additions - Net	5,505,031	72,465	5,577,496	12,893,698	3,207,402	21,678,596
<b>Release of Restrictions</b>	9,078,412	-	9,078,412	(8,864,631)	(213,781)	-
Total revenue and other additions and release of restrictions	14,583,443	72,465	14,655,908	4,029,067	2,993,621	21,678,596
<b>Expenses</b>						
Distributions to or for The University of Akron:						
Direct distributions to the University	9,110,937	-	9,110,937	-	-	9,110,937
Distributions on behalf of the University	645,062	-	645,062	-	-	645,062
Administration of the Foundation:						
Services performed by University personnel	421,466	-	421,466	-	-	421,466
Professional fees	152,530	3,426	155,956	-	-	155,956
Office expenses	30,498	-	30,498	-	-	30,498
Other expenses	146,284	39,347	185,631	-	-	185,631
Total expenses	10,506,777	42,773	10,549,550	-	-	10,549,550
<b>Change in Donor Designation</b>	-	-	-	527,498	(527,498)	-
<b>Change in Net Assets</b>	4,076,666	29,692	4,106,358	4,556,565	2,466,123	11,129,046
<b>Net Assets - Beginning of year</b>	709,800	-	709,800	46,575,793	95,502,067	142,787,660
<b>Net Assets - End of year</b>	<b>\$ 4,786,466</b>	<b>\$ 29,692</b>	<b>\$ 4,816,158</b>	<b>\$ 51,132,358</b>	<b>\$ 97,968,190</b>	<b>\$ 153,916,706</b>

Report 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*

Independent Auditor's Report

To Management and the Board of Directors  
The University of Akron Foundation

We have audited, in accordance with the 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, the consolidated financial statements of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, which comprise the consolidated statement of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated October 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered The University of Akron Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To Management and the Board of Directors  
The University of Akron Foundation

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The University of Akron Foundation's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

Columbus, Ohio  
October 9, 2013

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# Dave Yost • 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  
JANUARY 14, 2014**