

UNIVERSITY OF AKRON FOUNDATION
SUMMIT COUNTY
REGULAR AUDIT
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

OHIO AUDITOR OF STATE
KEITH FABER



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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 Crowe LLP, for the audit period July 1, 2020 through June 30, 2021. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 10, 2021

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THE UNIVERSITY OF AKRON FOUNDATION
Akron, Ohio

FINANCIAL STATEMENTS
June 30, 2021 and 2020

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THE UNIVERSITY OF AKRON FOUNDATION
Akron, Ohio

FINANCIAL STATEMENTS
June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The University of Akron Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of The University of Akron, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

(Continued)

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021 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 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 effectiveness of The University of Akron Foundation's internal control over financial reporting or on compliance. That report 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.



Crowe LLP

Columbus, Ohio
October 22, 2021

THE UNIVERSITY OF AKRON FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------------|---------------------------|
| ASSETS | | |
| Cash | \$ 4,076,574 | \$ 1,670,448 |
| Accounts receivable | 2,947,600 | 141,644 |
| Pledges receivable - Net of allowances and discounts | 10,093,331 | 10,982,216 |
| Note receivable | 230,000 | 300,000 |
| Investments - At fair value | 235,092,593 | 191,328,906 |
| Property - Net | 747,900 | 747,900 |
| Beneficial interest in real estate | <u>335,000</u> | <u>335,000</u> |
| Total assets | <u>\$ 253,522,998</u> | <u>\$ 205,506,114</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 126,334 | \$ 141,921 |
| Contributions payable to the University | 71,760 | 204,362 |
| Funds held for others | 5,000 | 5,000 |
| Deferred revenue | 28,500 | 28,500 |
| Annuity/Unitrust agreements and refundable advance | <u>11,130,271</u> | <u>10,681,700</u> |
| Total liabilities | 11,361,865 | 11,061,483 |
| Net Assets | | |
| Without donor restrictions | 9,387,629 | 7,958,750 |
| With donor restrictions | <u>232,773,504</u> | <u>186,485,881</u> |
| Total net assets | <u>242,161,133</u> | <u>194,444,631</u> |
| Total liabilities and net assets | <u>\$ 253,522,998</u> | <u>\$ 205,506,114</u> |

See accompanying notes to financial statements.

THE UNIVERSITY OF AKRON FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|-----------------------|
| Revenues and other additions (reductions) | | | |
| Contributions | \$ 3,606,725 | \$ 8,400,434 | \$ 12,007,159 |
| Realized gain and net change in fair value of investments | 873,953 | 43,828,761 | 44,702,714 |
| Change in fair value of annuity/unitrust agreements | 180,203 | 1,155,365 | 1,335,568 |
| Dividend and interest income, net of fees | 1,917,911 | 784,891 | 2,702,802 |
| Other income | <u>-</u> | <u>29,077</u> | <u>29,077</u> |
| Total revenues and other additions - Net | 6,578,792 | 54,198,528 | 60,777,320 |
| Release of Restrictions | <u>7,682,934</u> | <u>(7,682,934)</u> | <u>-</u> |
| Total revenue and other additions (reductions) and release of restrictions | <u>14,261,726</u> | <u>46,515,594</u> | <u>60,777,320</u> |
| Expenses | | | |
| Distributions to or for The University of Akron: | | | |
| Direct distributions to the University | 11,641,444 | - | 11,641,444 |
| Distributions on behalf of the University | 399,845 | - | 399,845 |
| Administration of the Foundation: | | | |
| Services performed by University personnel | 735,696 | - | 735,696 |
| Property expenses | 809 | - | 809 |
| Professional fees | 59,895 | - | 59,895 |
| Travel and cultivation | 27,944 | - | 27,944 |
| Office expenses | 169,837 | - | 169,837 |
| Other expenses | <u>25,348</u> | <u>-</u> | <u>25,348</u> |
| Total expenses | 13,060,818 | - | 13,060,818 |
| Change in Donor Designation | <u>227,971</u> | <u>(227,971)</u> | <u>-</u> |
| Change in Net Assets | 1,428,879 | 46,287,623 | 47,716,502 |
| Net Assets - Beginning of year | <u>7,958,750</u> | <u>186,485,881</u> | <u>194,444,631</u> |
| Net Assets - End of year | <u>\$ 9,387,629</u> | <u>\$ 232,773,504</u> | <u>\$ 242,161,133</u> |

See accompanying notes to financial statements

THE UNIVERSITY OF AKRON FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|-----------------------|
| Revenues and other additions (reductions) | | | |
| Contributions | \$ 3,659,539 | \$ 6,187,021 | \$ 9,846,560 |
| Realized gain and net change in fair value of investments | (150,528) | (5,649,756) | (5,800,284) |
| Change in fair value of annuity/unitrust agreements | (278,180) | (215,615) | (493,795) |
| Dividend and interest income, net of fees | 1,901,756 | 2,416,492 | 4,318,248 |
| Impairment loss | (529,000) | - | (529,000) |
| Other income | <u>2,194</u> | <u>22,849</u> | <u>25,043</u> |
| Total revenues and other additions - Net | 4,605,781 | 2,760,991 | 7,366,772 |
| Release of Restrictions | <u>6,559,378</u> | <u>(6,559,378)</u> | <u>-</u> |
| Total revenue and other additions (reductions) and release of restrictions | <u>11,165,159</u> | <u>(3,798,387)</u> | <u>7,366,772</u> |
| Expenses | | | |
| Distributions to or for The University of Akron: | | | |
| Direct distributions to the University | 10,561,296 | - | 10,561,296 |
| Distributions on behalf of the University | 620,985 | - | 620,985 |
| Administration of the Foundation: | | | |
| Services performed by University personnel | 692,755 | - | 692,755 |
| Property expenses | 9,649 | - | 9,649 |
| Professional fees | 343,290 | - | 343,290 |
| Travel and cultivation | 41,416 | - | 41,416 |
| Office expenses | 23,631 | - | 23,631 |
| Other expenses | <u>24,504</u> | <u>-</u> | <u>24,504</u> |
| Total expenses | 12,317,526 | - | 12,317,526 |
| Change in Donor Restriction | <u>255,001</u> | <u>(255,001)</u> | <u>-</u> |
| Change in Net Assets | (897,366) | (4,053,388) | (4,950,754) |
| Net Assets - Beginning of year | <u>8,856,116</u> | <u>190,539,269</u> | <u>199,395,385</u> |
| Net Assets - End of year | <u>\$ 7,958,750</u> | <u>\$ 186,485,881</u> | <u>\$ 194,444,631</u> |

See accompanying notes to financial statements

THE UNIVERSITY OF AKRON FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 47,716,502 | \$ (4,950,754) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Net change in the fair value of investments | (36,538,261) | 4,147,216 |
| Contributions restricted for long-term investment | (8,400,434) | (7,908,731) |
| Change in fair value of annuity/unitrust agreements | (1,335,568) | 493,795 |
| Loss on impairment of property | - | 529,000 |
| Change in allowance for doubtful accounts | (96,900) | (284,248) |
| Change in pledge discount | (31,600) | (243,618) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,805,963) | 174,492 |
| Pledges receivable | 1,017,385 | 4,084,451 |
| Accounts payable and other liabilities | (148,189) | (576,211) |
| Net cash used in operating activities | <u>(623,028)</u> | <u>(4,534,608)</u> |
| Cash Flows from Investing Activities | | |
| Changes in note receivable | 70,000 | (43,656) |
| Proceeds from sale of investments | 14,375,569 | 28,655,502 |
| Purchase of investments | <u>(21,600,988)</u> | <u>(29,441,540)</u> |
| Net cash used in investing activities | (7,155,419) | (829,694) |
| Cash Flows from Financing Activities | | |
| Proceeds from contributions restricted for: | | |
| Investment in endowment | 8,400,434 | 7,908,731 |
| Other financing activities: | | |
| Interest and dividends restricted for annuity agreements | 72,320 | 149,056 |
| Net change in restricted annuity agreements | 2,640,283 | (368,970) |
| Payments of annuity obligations | <u>(928,464)</u> | <u>(990,374)</u> |
| Net cash provided by financing activities | <u>10,184,573</u> | <u>6,698,443</u> |
| Net Change in Cash | 2,406,126 | 1,334,141 |
| Cash - Beginning of year | <u>1,670,448</u> | <u>336,307</u> |
| Cash - End of year | <u>\$ 4,076,574</u> | <u>\$ 1,670,448</u> |

See accompanying notes to financial statements

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 - ORGANIZATION

The University of Akron Foundation (the "Foundation"), a discretely presented component unit of The University of Akron (the "University"), is a not-for-profit organization. The Foundation's mission is to provide financial assistance to the University by encouraging, investing and administering gifts and bequests on behalf of alumni, friends, corporations, organizations and foundations who have a deep and abiding interest in supporting the University.

Through the generosity of University benefactors, the Foundation provides University students and faculty with resources to grow and excel; meaningful and experiential learning and teaching opportunities; as well as pathways for University students to succeed and graduate.

Bestowing scholarships, lectureships, professorships, chairs, instructional grants, equipment funds, building and landscape improvements, and many other important programs, the Foundation is a vital part of supporting the University's mission and goals.

University benefactors are recognized by the Foundation as members of the John R. Buchtel Society, which includes seven gift clubs, ranging from the Loyalty Club for annual donors of up to \$99 to the Leadership Club for lifetime contributions of \$5 million or more.

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:

- *Net Assets Without Donor Restrictions* - Net assets that are not subject to donor-imposed stipulations. This category includes quasi-endowment principal, annuity funds, and earnings designated by the board of directors to function as endowments.
- *Net Assets With Donor Restrictions*- 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 endowment earnings as well as 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 endowment principal.

Revenues: Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless its 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 statements of activities.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash: 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 of loss.

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 stated either at cost or at appraised market values when applicable. Alternatives, for which there is no ready market, are recorded at their net asset value according to the 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 and unrealized gains and losses) is included in revenue, gains, and other income of net assets without donor restrictions, unless the net appreciation or investment income is restricted by the donor or by law. Dividend and interest income is presented net of investment fees of approximately \$631,000 and \$1,041,000 for the years ended June 30, 2021 and 2020, respectively, on the statement of activities.

Underwater Endowments: In Ohio, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governs the investment of and spending from endowments. 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 underwater.

Property: Property is held for investment purposes and recorded at cost at the date of acquisition or estimated fair value at the date of donation.

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.

During the year ended June 30, 2020, three properties were deemed impaired, a portion of which is reflected in both impairment loss and change in fair value of annuity/unitrust agreements on the statements of activities. The carrying value of the assets exceeded fair value, which was determined by updated appraisals by \$529,000.

Pledges Receivable: The Foundation records pledges including 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.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial statements. The fair values of short-term financial instruments, including cash equivalents, accounts receivable and payable, approximate the carrying amounts in the accompanying 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 fiscal years ended June 30, 2021 and 2020, total fundraising costs were \$293,000 and \$278,000, respectively.

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 administrative support, facilities operation and maintenance, and fundraising. Costs are allocated between the various programs and support activities on an actual basis, where available, or based upon the functional expense area most related to their purpose. Although methods of allocation used are considered appropriate, other methods could be used that would produce different results.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 those such changes could materially affect the amounts reported in the statement of financial position.

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.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of the annuity pool, which relates to the annuity and unitrust agreements, and the fair value of refundable advance, which relates to a revocable trust, is estimated by discounting expected cash inflows and outflows to 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 advance at June 30, 2021 and 2020 is \$11,130,271 and \$10,681,700, respectively.

Reclassification: Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 financial statement presentation. These reclassifications had no effect on change in net assets or total net assets as previously reported.

Upcoming Accounting Pronouncements: In February 2016, FASB issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The new lease guidance will be effective for the Foundation's year ending June 30, 2023 and will be applied using a cumulative effect adjustment on adoption to the beginning of the earliest period presented.

Coronavirus Pandemic: As a result of the Novel Coronavirus Disease (COVID-19), the President of the United States declared that the COVID-19 outbreak in the United States constituted a national emergency effective March 1, 2020. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 3 - PLEDGES RECEIVABLE

Unconditional promises to give are included in the 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, 2021 and 2020, the future expected cash flows from pledges receivable have been discounted using a discount rate of 0.87% and 0.29%, respectively.

Pledges receivable at June 30, 2021 and 2020 are expected to be realized as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Less than one year | \$ 2,486,000 | \$ 1,590,710 |
| One to five years | 3,469,329 | 3,632,004 |
| More than five years | <u>7,250,000</u> | <u>9,000,000</u> |
| Total | 13,205,329 | 14,222,714 |
| Less amount estimated to be uncollectible | (352,683) | (449,583) |
| Less unamortized discount | <u>(2,759,315)</u> | <u>(2,790,915)</u> |
| Total pledges receivable - Net | <u>\$ 10,093,331</u> | <u>\$ 10,982,216</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 revenues in the statement of activities.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 - PLEDGES RECEIVABLE (Continued)

As of June 30, 2021 and 2020, the Foundation has \$37,890,133 and \$25,234,072 in numerous outstanding pledges, which are considered intentions to give and are contingent upon future events. These pledges are not recognized as contributions receivable or revenues 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 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 statement of activities. 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.

Investments as of June 30, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Bonds | \$ 4,056,801 | \$ 7,105,955 |
| Cash and cash equivalent | 21,552,262 | 28,099,422 |
| Certificates of Deposit | - | 505,481 |
| Fixed income funds | 30,400,562 | 12,731,515 |
| Common stocks | 3,560,303 | 8,632,482 |
| Equity funds | 32,622,036 | 21,787,977 |
| International equity funds | 55,630,195 | 51,121,566 |
| Private equity funds | 13,773,905 | 11,789,051 |
| Real estate funds | 1,514,488 | 1,116,993 |
| Hedge funds | 47,171,933 | 15,285,190 |
| Exchange traded funds | 264,233 | 251,132 |
| Floaters | 400,000 | 775,000 |
| Insurance policies - Cash surrender value | 13,877 | 14,199 |
| Mutual funds | 24,110,346 | 20,670,154 |
| Preferred stocks | 20,616 | 40,280 |
| U.S. Treasury obligations | <u>1,036</u> | <u>11,402,509</u> |
| Total fair value | <u>\$ 235,092,593</u> | <u>\$ 191,328,906</u> |

NOTE 5 - PROPERTY

Property consists of the following at June 30, 2021 and 2020:

| <u>Non-depreciable</u> | <u>2021</u> | <u>2020</u> |
|------------------------|-------------------|-------------------|
| Brown Street | \$ 36,000 | \$ 36,000 |
| East Exchange Street | 686,000 | 686,000 |
| Miller Parkway | <u>25,900</u> | <u>25,900</u> |
| Total | <u>\$ 747,900</u> | <u>\$ 747,900</u> |

During the year ended June 30, 2020, an impairment adjustment of \$529,000 was made as a result of updated appraisals.

(Continued)

NOTE 6 - BENEFICIAL INTEREST IN REAL ESTATE

The Foundation has the irrevocable right to receive ownership of certain real estate. The donors have retained the right to use the real estate for the donors' lifetime. The carrying value of the real estate (based upon an independent appraisal) is reported as a beneficial interest in real estate and as net assets with donor restrictions. Based on the agreement, the Foundation is required to pay periodic fixed payments to the donors during their lifetime. The Foundation recorded the present value of this annuity payable using the applicable American Council on Gift Annuities (ACGA) tables (discount rates used at June 30, 2021 and 2020 were 1.2% and 0.6%, respectively), based on the term of the agreement, as a liability of \$92,218 and \$106,663 at June 30, 2021 and 2020, respectively.

NOTE 7 - CONTRIBUTIONS PAYABLE TO THE UNIVERSITY

The Foundation at times receives gifts on behalf of the University. At June 30, 2021 and 2020, the Foundation owed the University \$71,760 and \$204,362, respectively, for such gifts received. During the years ended June 30, 2021 and 2020, the Foundation recorded \$3,589,669 and \$3,520,827, respectively, of contribution revenues for amounts received on behalf of the University.

NOTE 8 – NOTE RECEIVABLE

During November 2019, the University and the University of Akron Foundation executed an agreement for a \$1,000,000 line of credit. The Foundation provided the line of credit which, at 2% per annum and to be fully settled by November 2024, provides funding for the University's baseball field renovation project. The line of credit is expected to be repaid with donations. At June 30, 2021, the line of credit balance was \$230,000.

NOTE 9 - 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 other Foundation assets without donor restrictions will be utilized to fund the remaining future payments.

The Foundation has also entered into unitrust, annuity trust, and pooled income agreements, which include provisions either for the Foundation to pay beneficiaries' periodic payments until the assets of the trust have been exhausted or until death of the beneficiaries. Upon the death of the beneficiaries, any remaining investments 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 ACGA tables (discount rates used at June 30, 2021 and 2020 were 1.2% and 0.6%, respectively) based on the term of the agreement, as a liability. The balance of the gift is recorded as contributions without donor restrictions or with donor restrictions, as appropriate.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 9 - ANNUITY AND UNITRUST AGREEMENTS (Continued)

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 \$13,866,331 and \$13,228,582 at June 30, 2021 and 2020, respectively), are recognized in the statements of activities as changes in the value of annuity and unitrust agreements.

NOTE 10 - NET ASSETS

Net assets without donor restrictions at June 30, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-------------------------|-------------------------|
| Current operations | \$ 4,324,268 | \$ 3,672,860 |
| Board-designated | | |
| Academic and student support | 3,575,992 | 2,955,805 |
| Facilities and operation maintenance | 925,218 | 865,369 |
| Administrative support | <u>562,151</u> | <u>464,716</u> |
| Total | <u>\$ 9,387,629</u> | <u>\$ 7,958,750</u> |

Net assets with donor restrictions, 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, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|---------------------------|---------------------------|
| Specific purpose funds | 71,166,112 | 23,437,662 |
| Permanent endowment funds | 147,324,887 | 147,900,502 |
| Annuity and unitrust agreements | 4,189,174 | 4,165,501 |
| Pledges receivable | <u>10,093,331</u> | <u>10,982,216</u> |
| Total | <u>\$ 232,773,504</u> | <u>\$ 186,485,881</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 \$7,682,934 and \$6,559,378 during fiscal years 2021 and 2020, respectively.

(Continued)

NOTE 11 - 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 statement of activities. For the years ended June 30, 2021 and 2020, distributions transferred to the University of \$11,796,042 and \$10,735,408, respectively, are gross of amounts received from the University of \$154,598 and \$174,112, respectively.

The University allocated certain personnel and overhead expenses to the Foundation totaling \$735,696 and \$692,755 in fiscal years 2021 and 2020, respectively. The Foundation reimburses the University for these amounts, which are recorded as “services performed by University personnel” in the statement of activities.

NOTE 12 - FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the 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 fund statements, pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. In some instances, net asset value is used as a practical expedient for estimating fair value.

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 fiscal year. For the years ended June 30, 2021 and 2020, 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, 2021 and 2020 and the valuation techniques used by the Foundation to determine those fair values.

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 - FAIR VALUE MEASUREMENTS (Continued)

| Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2021 | | | | | |
|--|--------------------------|---|---|--|--------------------|
| | Balance June 30, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Net Asset Value |
| Assets - Investments | | | | | |
| Bonds | \$ 4,056,801 | \$ - | \$ 4,056,801 | \$ - | \$ - |
| Fixed income funds | 30,400,562 | - | 9,646,790 | - | 20,753,772 |
| Common stocks | 3,560,303 | 3,560,303 | - | - | - |
| Equity funds | 32,622,036 | 10,221,423 | - | - | 22,400,613 |
| International equity funds | 55,630,195 | 1,524,359 | - | - | 54,105,836 |
| Private equity funds | 13,773,905 | - | - | - | 13,773,905 |
| Real estate funds | 1,514,488 | - | - | - | 1,514,488 |
| Hedge funds | 47,171,933 | - | - | - | 47,171,933 |
| Exchange traded funds | 264,233 | 264,233 | - | - | - |
| Floater | 400,000 | - | 400,000 | - | - |
| Cash and cash equivalent | 21,552,262 | 21,552,262 | - | - | - |
| Mutual funds | 24,110,346 | 24,110,346 | - | - | - |
| Preferred stocks | 20,616 | 20,616 | - | - | - |
| U.S. Treasury obligations | 1,036 | - | 1,036 | - | - |
| Beneficial interest in real estate | 335,000 | - | - | 335,000 | - |
| Liabilities | | | | | |
| Annuity/unitrust agreements and refundable advances | (11,130,271) | - | - | (11,130,271) | - |
| Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2020 | | | | | |
| | Balance June 30, 2020 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Net Asset Value |
| Assets - Investments | | | | | |
| Bonds | \$ 7,105,955 | \$ - | \$ 7,105,955 | \$ - | \$ - |
| Fixed income funds | 12,731,515 | - | - | - | 12,731,515 |
| Common stocks | 8,632,482 | 8,632,482 | - | - | - |
| Equity funds | 21,787,977 | - | - | - | 21,787,977 |
| International equity funds | 51,121,566 | - | - | - | 51,121,566 |
| Private equity funds | 11,789,051 | - | - | - | 11,789,051 |
| Real estate funds | 1,116,993 | - | - | - | 1,116,993 |
| Hedge funds | 15,285,190 | - | - | - | 15,285,190 |
| Exchange traded funds | 251,132 | 251,132 | - | - | - |
| Floater | 775,000 | - | 775,000 | - | - |
| Money market mutual funds | 28,099,422 | 28,099,422 | - | - | - |
| Mutual funds | 20,670,154 | 20,670,154 | - | - | - |
| Preferred stocks | 40,280 | 40,280 | - | - | - |
| U.S. Treasury obligations | 11,402,509 | - | 11,402,509 | - | - |
| Beneficial interest in real estate | 335,000 | - | - | 335,000 | - |
| Liabilities | | | | | |
| Annuity/unitrust agreements and refundable advances | (10,681,700) | - | - | (10,681,700) | - |

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 - FAIR VALUE MEASUREMENTS (Continued)

Included in the Level 1 money market and mutual funds above is approximately \$4,250,000 and \$3,250,000 invested in a Fidelity Government Money Market Fund as of June 30, 2021 and 2020, respectively. All investment allocations are in accordance with the Foundation's investment policy. No other significant concentrations of investments exist as of June 30, 2021 or 2020.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2021:

| | Beneficial Interest in Real <u>Estate</u> | Annuity/Unitrust Agreements and Refundable <u>Advance</u> |
|---|---|--|
| Balance at July 1, 2020 | \$ 335,000 | \$ (10,681,700) |
| Total losses included in changes in net assets: | | |
| Unrealized | - | (461,428) |
| Realized | - | (843,287) |
| Purchases | - | (72,320) |
| Sales | - | 928,464 |
| | <u> </u> | <u> </u> |
| Balance at June 30, 2021 | <u>\$ 335,000</u> | <u>\$ (11,130,271)</u> |

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2020:

| | Beneficial Interest in Real <u>Estate</u> | Annuity/Unitrust Agreements and Refundable <u>Advance</u> |
|---|---|--|
| Balance at July 1, 2019 | \$ 335,000 | \$ (11,398,193) |
| Total losses included in changes in net assets: | | |
| Unrealized | - | (346,982) |
| Realized | - | (140,247) |
| Purchases | - | (172,962) |
| Sales | - | 1,376,684 |
| | <u> </u> | <u> </u> |
| Balance at June 30, 2020 | <u>\$ 335,000</u> | <u>\$ (10,681,700)</u> |

Investment Policies: The Investment Policy is designed to achieve the Foundation's desired objectives. The Investment Policy asset allocation targets and ranges follow:

| | <u>Target</u> | <u>Allowable Range</u> |
|--------------------|-----------------------------|------------------------|
| Equities | 50% | 40%-60% |
| Alternatives (Net) | 22% | 10%-32% |
| Real Assets | 8% | 0%-18% |
| Fixed Income | 20% | 10%-30% |
| Opportunistic | 0% | 0%-10% |
| Cash | 0% | 0%-20% |
| | <u> </u> | |
| Total portfolio | <u>100%</u> | |

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THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 - 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.

| | <u>Fair Value at</u> | | <u>Valuation Technique</u> | <u>Significant Unobservable Inputs Used</u> | <u>Range (Weighted Average)</u> |
|--|----------------------|----------------------|--|--|---|
| | <u>June 30, 2021</u> | <u>June 30, 2020</u> | | | |
| Assets - beneficial interest in real estate | \$ 335,000 | \$ 335,000 | Market comparables | Third-party appraisal | 100% |
| Liabilities - Annuity/unitrust agreements and refundable advance | \$ (11,130,271) | \$ (10,681,700) | IRS Pub 590 actuarial tables Discounted cash flow appraisal | Life expectancy of beneficiaries risk-free rate of return | 2.3-52.9 years 1-2.5% |

Annuity and unitrust agreement liabilities characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. Refundable advance characterized as Level 3 liability consist of a revocable trust. 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 impairment charges 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. Using this method, \$529,000 of impairments were recorded for the year ended June 30, 2020.

Investments in Entities that Calculate Net Asset Value per Share: The Foundation holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

| | <u>June 30, 2021</u> | | <u>June 30, 2020</u> | | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|----------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|---------------------------------|-------------------------------------|
| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Fair Value</u> | <u>Unfunded Commitments</u> | | |
| Fixed income funds | \$ 20,753,772 | \$ - | \$ 12,731,515 | \$ - | Daily-Monthly | 1-30 days |
| Equity funds | 22,400,613 | - | 21,787,977 | - | Daily-Monthly | 1-30 days |
| International equity funds | 54,105,836 | - | 51,121,566 | - | Monthly | 30 days |
| Private equity funds | 13,773,905 | 4,914,319 | 11,789,051 | 1,329,431 | Restricted | N/A |
| Real estate funds | 1,514,488 | 2,078,257 | 1,116,993 | - | Restricted | N/A |
| Hedge funds | 47,171,933 | - | 15,285,190 | - | Quarterly | 90 days |

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THE UNIVERSITY OF AKRON FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 12 - FAIR VALUE MEASUREMENTS (Continued)

The University of Akron Foundation seeks to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Foundation seeks to achieve its objective by allocating its assets among unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities, and/or separate accounts managed pursuant to investment management agreements, as well as publicly traded stocks, exchange-traded funds, mutual funds, future contracts, forward contracts, options, swaps, and other derivative-type instruments.

NOTE 13 - 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 net assets with donor restrictions to be kept in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with 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, 2021, and 2020, was:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|------------------------------------|---------------------------------------|------------------------------------|-----------------------|
| <u>June 30, 2021</u> | | | |
| Donor-restricted endowment | \$ - | \$ 188,649,307 | \$ 188,649,307 |
| Board-designated (quasi-endowment) | <u>4,395,464</u> | <u> </u> | <u>4,395,464</u> |
| Total funds | <u>\$ 4,395,464</u> | <u>\$ 188,649,307</u> | <u>\$ 193,044,771</u> |
| <u>June 30, 2020</u> | | | |
| Donor-restricted endowment | \$ - | \$ 147,900,502 | \$ 147,900,502 |
| Board-designated (quasi-endowment) | <u>3,514,444</u> | <u> </u> | <u>3,514,444</u> |
| Total funds | <u>\$ 3,514,444</u> | <u>\$ 147,900,502</u> | <u>\$ 151,414,946</u> |

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 13 - DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (Continued)

Changes in endowment net assets for the fiscal years ended June 30, 2021 and 2020:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------------------|
| <u>June 30, 2021</u> | | | |
| Endowment net assets, beginning of the year | \$ 3,514,444 | \$ 147,900,502 | \$ 151,414,946 |
| Net investment return | 934,005 | 40,082,206 | 41,016,212 |
| Contributions | - | 4,682,858 | 4,682,858 |
| Appropriation of endowment assets for expenditure | (123,972) | (5,020,138) | (5,144,110) |
| Change in donor restrictions | <u>70,987</u> | <u>1,003,879</u> | <u>1,074,866</u> |
| Endowment net assets, end of the year | <u>\$ 4,395,464</u> | <u>\$ 188,649,307</u> | <u>\$ 193,044,771</u> |
| <u>June 30, 2020</u> | | | |
| Endowment net assets, beginning of the year | \$ 3,766,570 | \$ 146,616,690 | \$ 150,383,260 |
| Net investment return | (98,553) | (3,306,361) | (3,404,914) |
| Contributions | - | 7,908,731 | 7,908,731 |
| Appropriation of endowment assets for expenditure | (123,973) | (3,148,150) | (3,272,123) |
| Change in donor restrictions | <u>(29,600)</u> | <u>(170,408)</u> | <u>(200,008)</u> |
| Endowment net assets, end of the year | <u>\$ 3,514,444</u> | <u>\$ 147,900,502</u> | <u>\$ 151,414,946</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 exist in 127 donor-restricted endowment funds, which together have a gift value of \$22,745,242, and a current fair market value of \$16,308,901, and a deficiency of \$6,400,400 as of June 30, 2021. Deficiencies of this nature exist in 347 donor-restricted endowment funds, which together have a gift value of \$70,489,320, and a current fair market value of \$60,641,851, and a deficiency of \$9,847,469 as of June 30, 2020. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

In accordance with the terms of donor gift instruments, the Foundation is permitted to reduce the balance of restricted endowments below the original corpus. Subsequent investment gains are then used to restore the balance up to the fair market value of the original amount of the gift. Both fund deficiencies and subsequent gains above that amount are recorded in net assets with donor restrictions.

In certain instances, the Foundation provided funding of approximately \$14,000 and \$119,000 for fiscal years ended June 30, 2021 and June 30, 2020, respectively, so the activities supported by the endowments would continue despite being underwater.

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THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 13 - DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (Continued)

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 intended to produce results that are generally consistent with returns in the global equity markets while assuming a moderate level of investment risk. Actual returns in any given year may vary.

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 emphasizes equity investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Investment Objectives: The Foundation investment and spending policy stipulates that 4.25% of a three-year rolling average of the market value of the endowment is available for expenditure, 1.0% 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 in the current period. Over the long term, the Foundation expects the spending policy to allow its endowment to maintain purchasing power.

NOTE 14 - EXPENSES BY NATURE

The statement of activities reflects certain categories of expenses attributable to the programs and supporting functions of the Foundation. Program Activities include academic and student support and auxiliaries. Supporting Activities include administrative support, facilities operation and maintenance, and fundraising.

The table below presents these functional expenses by their natural classification for the year ended June 30, 2021.

| | <u>Program Activities</u> | | <u>Supporting Activities</u> | | | <u>Total</u> |
|--|---|--------------------|-----------------------------------|---|--------------------|----------------------|
| | <u>Academic And Student Support</u> | <u>Auxillaries</u> | <u>Administrative Support</u> | <u>Facilities Operation and Maintenance</u> | <u>Fundraising</u> | |
| Direct distributions to the University | \$ 4,043,637 | \$ 157,467 | \$ 3,826,946 | \$ 3,613,393 | \$ - | \$ 11,641,444 |
| Distributions on behalf of the University | 48,349 | 194,151 | 72,507 | 65,195 | 19,642 | 399,845 |
| Services performed by University personnel | - | - | 305,653 | 207,088 | 222,956 | 735,696 |
| Property expenses | - | - | - | 809 | - | 809 |
| Professional fees | - | - | 59,895 | - | - | 59,895 |
| Travel and cultivation | - | - | 5,475 | - | 22,469 | 27,944 |
| Office expenses | - | - | 142,697 | - | 27,140 | 169,837 |
| Other expenses | - | - | 24,831 | - | 517 | 25,348 |
| Total expenses | \$ 4,091,986 | \$ 351,619 | \$ 4,438,004 | \$ 3,886,484 | \$ 292,725 | \$ 13,060,818 |

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 14 - EXPENSES BY NATURE (Continued)

The table below presents these functional expenses by their natural classification for the year ended June 30, 2020.

| | Program Activities | | Supporting Activities | | | Total |
|--|------------------------------------|-------------------|---------------------------|--|-------------------|----------------------|
| | Academic And Student Support | Auxilliaris | Administrative Support | Facilities Operation and Maintenance | Fundraising | |
| Direct distributions to the University | \$ 3,668,449 | \$ 142,857 | \$ 3,471,864 | \$ 3,278,126 | \$ - | \$ 10,561,296 |
| Distributions on behalf of the University | 75,089 | 301,529 | 112,610 | 101,252 | 30,505 | 620,985 |
| Services performed by University personnel | - | - | 287,812 | 195,000 | 209,943 | 692,755 |
| Property expenses | - | - | - | 9,649 | - | 9,649 |
| Professional fees | - | - | 343,290 | - | - | 343,290 |
| Travel and cultivation | - | - | 8,114 | - | 33,302 | 41,416 |
| Office expenses | - | - | 19,855 | - | 3,776 | 23,631 |
| Other expenses | - | - | 24,004 | - | 500 | 24,504 |
| | | | | | | |
| Total expenses | <u>\$ 3,743,538</u> | <u>\$ 444,386</u> | <u>\$ 4,267,549</u> | <u>\$ 3,584,027</u> | <u>\$ 278,026</u> | <u>\$ 12,317,526</u> |

NOTE 15 - LIQUIDITY AND AVAILABILITY

The Foundation's financial assets and liquid resources available within one year of the statement of financial position date for general expense are as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 9,852,097 | \$ 5,741,833 |
| Investments, short term | 2,262,995 | 3,283,707 |
| Expected endowment appropriations | 6,789,000 | 5,934,000 |
| Board-designated endowments | 4,395,464 | 3,514,444 |
| Pledges receivable | 91,721 | 1,031,130 |
| Accounts receivable | <u>2,941,718</u> | <u>68,913</u> |
| | <u>\$ 26,332,995</u> | <u>\$ 19,574,027</u> |

As part of the Foundation's liquidity management, the Foundation invests its financial assets to be available as its general expenses, liabilities, and other obligations come due. As part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short and intermediate-term investments, including money market, commercial paper, floaters, corporate bonds, and short-term treasury instruments. The amount of these investments included within the balances above represent holdings that are able to be liquidated and spent on general expenses after considering the impact of donor-imposed restrictions on the investment balance. Similarly, pledges receivable and accounts receivable balances represent funds due within one year that are not subject to purpose restrictions outside of the general expenses of the Foundation.

(Continued)

NOTE 15 - LIQUIDITY AND AVAILABILITY (Continued)

Expected appropriations from donor-restricted endowments and the total market value of board-designated endowments are also included as financial assets available for expense within one year. Draws from donor-restricted and board-designated endowments are made in accordance with the Foundation's spending policies and used to support the general expenses of the Foundation for the following fiscal year, as restricted by the donor(s). While the above amount represents the amount that is able to be drawn in accordance with the policy, actual draws may differ. Although not intended, the balance of board-designated endowment funds could be made available to meet cash needs if necessary.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 22, 2021, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S 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*

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 financial statements of The University of Akron Foundation, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The University of Akron Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 University of Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The University of Akron 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 entity'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.

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 financial statements. 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*.

(Continued)

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Columbus, Ohio
October 22, 2021

OHIO AUDITOR OF STATE KEITH FABER



UNIVERSITY OF AKRON FOUNDATION

SUMMIT COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/23/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov