

# **The University of Akron Foundation and Subsidiary**

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**Consolidated Financial Statements  
with Additional Information  
June 30, 2014 and 2013**





# Dave Yost • Auditor of State

Board of Directors  
The University of Akron Foundation and Subsidiary  
302 Butchel Common  
Akron, Ohio 44325

We have reviewed the *Independent Auditor's Report* of The University of Akron Foundation and Subsidiary, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2013 through June 30, 2014. 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 and Subsidiary is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

December 19, 2014

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# **The University of Akron Foundation and Subsidiary**

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## Independent Auditor's Report

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

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

We have audited the accompanying consolidated financial statements of The University of Akron Foundation and Subsidiary (the "Foundation"), a discretely presented component unit of The University of Akron, which comprise the consolidated statement of financial position as of June 30, 2014 and 2013, 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 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, 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 entity'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 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 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 and Subsidiary

**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 and Subsidiary as of June 30, 2014 and 2013, and the changes in their 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 \$129,396,000 (72 percent of net assets) at June 30, 2014 and \$21,361,000 (13 percent of net assets) at June 30, 2013, 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. Our opinion is not modified with respect to this matter.

**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 33 and 34, 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 13, 2014 on our consideration of The University of Akron Foundation and Subsidiary'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 35 and 36 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Foundation and Subsidiary's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 13, 2014

# The University of Akron Foundation and Subsidiary

## Consolidated Statement of Financial Position

	June 30	
	2014	2013
<b>Assets</b>		
Cash	\$ 2,115,351	\$ 1,578,634
Accounts and notes receivable	792,282	321,048
Pledges receivable - Net of allowance and discount (Note 3)	8,482,067	9,591,431
Investments - At fair value (Note 4)	170,233,127	147,805,142
Investments held for others (Notes 4 and 5)	1,954,194	2,479,641
Property - Net (Note 6)	13,916,760	13,869,606
Net investment in direct financing lease (Note 7)	65,371	90,164
Beneficial interest in real estate (Note 8)	335,000	335,000
	<b>\$ 197,894,152</b>	<b>\$ 176,070,666</b>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 194,373	\$ 32,069
Amounts payable to the University (Note 9)	123,590	168,069
Deposit - Austen BioInnovation Institute in Akron (Note 5)	1,954,194	2,473,663
Deposit - University Park Alliance (Note 5)	-	5,721
Deposit - Akron Civility Project (Note 5)	-	257
Deferred revenue	31,152	31,595
Line of credit (Note 10)	5,011,000	5,191,000
Annuity/unitrust agreements and refundable advances (Notes 8 and 11)	11,999,996	14,251,586
	19,314,305	22,153,960
Total liabilities		
<b>Net Assets</b>		
Unrestricted (Note 12)	8,623,119	4,816,158
Temporarily restricted (Note 12)	65,622,448	51,132,358
Permanently restricted (Note 12)	104,334,280	97,968,190
	178,579,847	153,916,706
Total net assets		
Total liabilities and net assets	<b>\$ 197,894,152</b>	<b>\$ 176,070,666</b>



# The University of Akron Foundation and Subsidiary

## Consolidated Statement of Activities Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Additions (Reductions)</b>				
Contributions	\$ 1,942,718	\$ 5,716,473	\$ 2,144,724	\$ 9,803,915
Net change in the fair value of investments	3,113,993	15,444,175	1,019,199	19,577,367
Change in fair value of annuity/unitrust agreements	120,013	6,138	3,318,262	3,444,413
Dividend and net investment income (loss)	2,006,303	(544,346)	43,183	1,505,140
Rental income	9,630	2,225	15,600	27,455
Other income	76,512	19,330	-	95,842
Total revenue and other additions - Net	7,269,169	20,643,995	6,540,968	34,454,132
<b>Release of Restrictions</b>				
	6,328,783	(6,182,543)	(146,240)	-
Total revenue and other additions and release of restrictions	13,597,952	14,461,452	6,394,728	34,454,132
<b>Expenses</b>				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 13)	8,280,447	-	-	8,280,447
Distributions on behalf of the University	556,103	-	-	556,103
Administration of the Foundation:				
Services performed by University personnel (Note 13)	486,840	-	-	486,840
Professional fees	169,098	-	-	169,098
Office expenses	106,398	-	-	106,398
Other expenses	192,105	-	-	192,105
Total expenses	9,790,991	-	-	9,790,991
<b>Change in Donor Designation</b>	-	28,638	(28,638)	-
<b>Change in Net Assets</b>	3,806,961	14,490,090	6,366,090	24,663,141
<b>Net Assets - Beginning of year</b>	4,816,158	51,132,358	97,968,190	153,916,706
<b>Net Assets - End of year</b>	<u>\$ 8,623,119</u>	<u>\$ 65,622,448</u>	<u>\$ 104,334,280</u>	<u>\$ 178,579,847</u>

# The University of Akron Foundation and Subsidiary

## 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 net investment 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 and Subsidiary

## Consolidated Statement of Cash Flows

	Year Ended June 30	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 24,663,141	\$ 11,129,046
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	(19,577,367)	(10,410,942)
Contributions restricted for long-term investment	(2,144,724)	(1,943,935)
Contributions of property	-	(185,000)
Change in fair value of annuity/unitrust agreements	(3,444,413)	(564,299)
Gain on sale of property	-	(233,186)
Bad debt expense	29,473	205,109
Change in pledge discount	(45,741)	526,485
Changes in operating assets and liabilities:		
Accounts and notes receivable	(471,233)	606,955
Pledges receivable	1,125,632	1,612,093
Deposit - Austen BioInnovation Institute in Akron	(519,470)	(88,584)
Deposit - University Park Alliance	(5,721)	(94,989)
Deposit - Akron Civility Project	(257)	(18,683)
Accounts payable and other liabilities	132,135	(627,291)
Net cash used in operating activities	(258,545)	(87,221)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	115,500,659	15,658,409
Purchase of investments	(117,819,711)	(18,051,569)
Purchase of property	(47,154)	(5,288,318)
Proceeds from the sale of properties	1,000	240,000
Net cash used in investing activities	(2,365,206)	(7,441,478)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	2,144,724	1,943,935
Investment subject to annuity agreements	-	235,000
Other financing activities:		
Net (payments on) proceeds from line of credit	(180,000)	5,191,000
Interest and dividends restricted for annuity agreements	132,127	117,394
Net change in restricted annuity agreements	2,389,992	1,287,393
Payments of annuity obligations	(1,326,375)	(1,277,920)
Net cash provided by financing activities	3,160,468	7,496,802
<b>Net Change in Cash</b>	536,717	(31,897)
<b>Cash - Beginning of year</b>	1,578,634	1,610,531
<b>Cash - End of year</b>	<u>\$ 2,115,351</u>	<u>\$ 1,578,634</u>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	<u>\$ 45,187</u>	<u>\$ 34,202</u>

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

### **Note I - Organization**

The University of Akron Foundation and Subsidiary (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

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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 (Nash Street), 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.

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

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations. This category includes quasi-endowment principal and earnings designated by the board of directors to function as endowments.
- **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, 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.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

**Cash and Cash Equivalents** - The Foundation considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2014 and 2013, approximately \$390,000 and \$4,500,000, 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.

**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 and unrealized gains and losses) 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. Dividend and interest income is presented net of investment fees of approximately \$1,821,000 and \$1,785,000 for the years ended June 30, 2014 and 2013, respectively, on the consolidated statement of activities.

At June 30, 2014 and 2013, the Foundation has remaining capital commitments for investment in a private equity fund of approximately \$1,495,000 and \$1,690,000, respectively.

During the year ended June 30, 2014, the Foundation purchased an interest in The University of Akron Foundation Fund, LP (the "Foundation Fund") (see Note 4). The Foundation Fund is a single investor fund (SIF) with Cambridge Associates Resources, LLC serving as the general partner. The investment committee of the Foundation has retained authority for setting investment policy guidelines and philosophy, and approving asset allocation targets and benchmarks. The investment committee of the Foundation has delegated to the general partner authority for manager selection and termination, management of cash flows to and from investments of the partnership, due diligence on underlying managers and investments, and performance reporting.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

**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.

**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. 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, 2014 or 2013.

**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.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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 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, 2014 and 2013, total fundraising costs were approximately \$224,000 and \$226,000, 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 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.



# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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, 2014 and 2013, 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 2011.

**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.

**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, 2014 and 2013 is \$11,999,996 and \$14,251,586, respectively.

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

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

**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 13, 2014, which is the date the consolidated financial statements were available to be issued.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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, 2014 and 2013, the future expected cash flows from pledges receivable have been discounted using a discount rate of 1.62 percent and 1.41 percent, respectively.

Pledges receivable at June 30, 2014 and 2013 are expected to be realized in the following periods:

	2014	2013
Less than one year	\$ 1,861,176	\$ 1,978,325
One to five years	4,324,926	4,528,846
More than five years	<u>6,162,013</u>	<u>6,966,576</u>
Total	12,348,115	13,473,747
Less amount estimated to be uncollectible	(851,291)	(821,818)
Less unamortized discount	<u>(3,014,757)</u>	<u>(3,060,498)</u>
Total pledges receivable - Net	<u>\$ 8,482,067</u>	<u>\$ 9,591,431</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, 2014, the Foundation has \$31,811,811 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 and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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. 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, 2014 and 2013 were as follows:

	2014	2013
Pooled investment funds managed for the Foundation:		
Ascend Capital Management	\$ -	\$ 2,282,495
BlackRock Vesey Street IV Private Equity	6,170,840	5,574,827
Brevan Howard Asset Management	-	3,903,249
CBRE Clarion Real Estate (formerly ING Global)	-	4,212,845
Common Fund	-	17,761
Denver Investment Advisors	-	2,965,485
EARNEST Partners	-	3,992,122
Eaton Vance	-	7,527,766
Invesco Worldwide	-	9,487,822
Lazard Asset Management	-	2,805,348
Lord Abbett & Co.	-	6,880,070
Main Account	389,358	36,012
NFJ Investment Group	-	7,806,235
Oak Associates	-	5,622,102
Och-Ziff Capital Management	-	4,816,461
Parametric Deltashift	-	4,962
PIMCO	-	20,152,119
Sirios Capital Management	-	2,502,469
Smith Group Asset Management	-	5,197,826
The University of Akron Foundation Fund, LP	123,208,006	-
Thornburg Investment Management	-	12,639,831
WHV Investment Management	-	3,862,074
Winslow Capital Management	-	11,136,454
Winton Capital Management	-	2,264,005
Total pooled investment funds	129,768,204	125,690,340
Bonds	10,121,531	8,685,347
Commercial paper	2,300,000	-
Common stocks	2,109,704	1,906,616
Floaters	2,900,955	3,007,500
Insurance policies - Cash surrender value	112,467	280,453
Money market funds	2,214,459	2,899,707
Mutual funds	22,213,195	7,291,578
Exchange traded funds	93,668	17,867
Preferred stocks	81,317	-
Private equities	17,413	-
U.S. Treasury obligations	254,408	505,375
Total fair value	<u>\$ 172,187,321</u>	<u>\$ 150,284,783</u>
Total cost	<u>\$ 158,648,165</u>	<u>\$ 135,357,583</u>

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 5 - Deposits

The Foundation has entered into various 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 \$1,954,000 and \$2,480,000 as of June 30, 2014 and 2013, respectively, related to these agreements.

### Note 6 - Property

Property consists of the following at June 30, 2014 and 2013:

	Non- depreciable		Total	
			2014	2013
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	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	418,833	-	418,833	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
Treeside Drive Property	16,250	48,750	65,000	65,000
Union Street Property	126,460	-	126,460	126,460
University Village Property	3,009,012	1,622,839	4,631,851	4,897,147
Wheeler Street Property A	176,045	-	176,045	-
Wheeler Street Property B	-	108,743	108,743	-
Less accumulated depreciation	-	(1,651)	(1,651)	(1,651)
Total	<u>\$ 12,055,539</u>	<u>\$ 1,861,221</u>	<u>\$ 13,916,760</u>	<u>\$ 13,869,606</u>

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

### **Note 6 – Property (Continued)**

For the year ended June 30, 2013, property valued at \$185,000 was donated to the Foundation and is included in contribution revenue in the consolidated statement of activities. No properties were donated to the Foundation during the year ended June 30, 2014.

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 2013.

### **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, 2014 and 2013, the present value of future payments to be received totaled approximately \$65,000 and \$90,000, respectively, as presented on the consolidated statement of financial position.

### **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. Based on the agreement, the Foundation is also 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, 2014 and 2013 were 2.20 percent and 1.20 percent, respectively), based on the term of the agreement, as a liability of \$115,603 and \$130,587 at June 30, 2014 and 2013, respectively.

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

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

The Foundation may at times receive gifts on behalf of the University. At June 30, 2014 and 2013, the Foundation owed the University \$123,590 and \$168,069, respectively, for such gifts received. During the years ended June 30, 2014 and 2013, the Foundation recorded \$1,871,374 and \$2,841,364, respectively, of contribution revenue for amounts received on behalf of the University.

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

In May 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, 2014 and June 30, 2013, the interest rate on the revolver was 0.90 percent. At June 30, 2014 and 2013, there was \$5,011,000 and \$5,191,000 outstanding under this agreement, respectively.

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 and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

### **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, 2014 and 2013 were 2.20 percent and 1.20 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 \$18,893,404 and \$17,680,118 at June 30, 2014 and 2013, respectively), are recognized in the consolidated statement of activities as changes in the value of annuity and unitrust agreements.



# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 12 - Net Assets

Unrestricted net assets at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current operations	\$ 3,744,665	\$ 2,794,584
Board-designated	5,847,477	5,432,015
Underwater endowment adjustment (Note 15)	<u>(969,023)</u>	<u>(3,410,441)</u>
Total	<u>\$ 8,623,119</u>	<u>\$ 4,816,158</u>

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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Accumulated appreciation on true endowments	\$ 31,311,958	\$ 19,746,576
Accumulated appreciation on specific purpose funds	3,030,772	2,606,185
Specific purpose funds	22,824,746	19,760,546
Annuity and unitrust agreements	23,731	17,593
Pledges receivable	<u>8,431,241</u>	<u>9,001,458</u>
Total	<u>\$ 65,622,448</u>	<u>\$ 51,132,358</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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Endowment funds (Note 15)	\$ 97,220,647	\$ 93,701,949
Annuity and unitrust agreements	7,005,327	3,676,266
Pledges receivable	<u>108,306</u>	<u>589,975</u>
Total	<u>\$ 104,334,280</u>	<u>\$ 97,968,190</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 \$6,328,783 and \$9,078,412 during fiscal years 2014 and 2013, respectively.

During the years ended June 30, 2014 and 2013, donors agreed to release \$28,638 and \$527,498, respectively, in permanently restricted net assets for the purpose of paying back deficiencies resulting from unfavorable market fluctuations. See Note 15 for additional information.

# **The University of Akron Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

### **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, 2014 and 2013, distributions transferred to the University of \$8,764,241 and \$9,459,116, respectively, are gross of amounts received from the University of \$483,794 and \$348,179, respectively.

The University allocated certain overhead expenses to the Foundation totaling \$486,840 and \$421,466 in fiscal years 2014 and 2013, respectively. The Foundation reimburses the University for these amounts, which 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, 2014 and 2013, there were no transfers between levels of the fair value hierarchy.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and 2013 and the valuation techniques used by the Foundation to determine those fair values.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2014

	Balance at June 30, 2014	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)	\$ 129,378,846	\$ -	\$ -	\$ 129,378,846
Bonds	10,121,531	-	10,121,531	-
Commercial paper	2,300,000	-	2,300,000	-
Common stocks	2,109,704	2,109,704	-	-
Exchange traded funds	93,668	93,668	-	-
Floaters	2,900,955	-	2,900,955	-
Money market mutual funds	2,214,459	2,214,459	-	-
Mutual funds	22,213,195	22,213,195	-	-
Preferred stocks	81,317	81,317	-	-
Private equities	17,413	-	-	17,413
U.S. Treasury obligations	254,408	254,408	-	-
Beneficial interest in real estate	335,000	-	-	335,000
<b>Liabilities</b>				
Annuity/unitrust agreements and refundable advances	(11,999,996)	-	-	(11,999,996)

#### 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	-	-
Floaters	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)

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

Included in the Level 1 money market and mutual funds above is approximately \$1,500,000 and \$2,600,000 invested in a PNC Fidelity Prime Money Market Fund as of June 30, 2014 and 2013, respectively. Included in the Level 2 pooled investment funds above is approximately \$6,350,000 invested in U.S. Treasury obligations as of June 30, 2013. Also included in the Level 2 pooled investment funds above is approximately \$4,280,000 invested in Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities as of June 30, 2013. 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, 2014 or 2013.

#### Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2014

	Hedge Funds	Private Equity Funds	Single Investor Fund	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2013	\$ 15,768,680	\$ 5,592,550	\$ -	\$ 335,000	\$ (14,251,586)
Total (losses) gains included in changes in net assets:					
Unrealized	(997,680)	794,444	3,568,652	-	3,458,133
Realized	1,667,895	254,321	6,156,518	-	-
Purchases	-	-	99,393,941	-	-
Sales	-	(453,062)	(2,350,000)	-	(1,206,543)
Transfers within Level 3	(16,438,895)	-	16,438,895	-	-
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ 6,188,253</u>	<u>\$ 123,208,006</u>	<u>\$ 335,000</u>	<u>\$ (11,999,996)</u>

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

	Hedge Funds	Private Equity Funds	Single Investor Fund	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>\$ -</u>	<u>\$ 335,000</u>	<u>\$ (14,251,586)</u>

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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 is as follows:

	Target	Allowable Range
Global equity:	60.0%	40% - 80%
U.S. public equity		15% - 50%
Non-U.S. public equity		15% - 50%
Emerging markets public equity		0% - 20%
Private equity		0% - 15%
Absolute return	15.0%	0% - 25%
Real assets:	12.0%	10% - 25%
Commodities		0% - 15%
Public real estate		0% - 15%
Public natural resources		0% - 15%
Private real estate		0% - 10%
Private natural resources		0% - 10%
Bonds and cash:	13.0%	10% - 25%
bonds		0% - 25%
Cash and equivalents		0% - 15%
Total private investments	-	0% - 20%

#### 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, 2014	June 30, 2013			
<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	\$ (11,999,996)	\$ (14,251,586)	IRS Pub 590 actuarial tables Discounted cash flow	Life expectancy of beneficiaries Risk free rate of return	2.8 - 60.1 years 1 - 2%

# **The University of Akron Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

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

Investments categorized as Level 3 assets at June 30, 2014 and 2013 consist primarily of hedge funds, private equity funds, and the Foundation Fund. 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, 2014 or 2013.

#### **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 five business 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, 2014 and 2013, 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.

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

At June 30, 2014 and 2013, the fair value, net of cash equivalents, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2014		June 30, 2013		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	6,170,840	-	5,574,790	-	None	N/A
Brevan Howard Hedge Fund	-	-	3,903,249	-	Quarterly	At least 99 days
CommonFund Private Equity Partners II	17,413	-	17,761	-	None	N/A
ML Winton Hedge Fund	-	-	2,264,005	-	Semi-Monthly	At least 8 days
Och-Ziff Hedge Fund	-	-	4,816,461	-	Quarterly	At least 45 days
Sirios Hedge Fund	-	-	2,502,469	-	Monthly	At least 45 days
The University of Akron Foundation Fund, LP	123,208,006	-	-	-	Quarterly	At least 45 days
Total	\$ 129,396,259	\$ -	\$ 21,361,230	\$ -		

The Ascend Access Hedge Fund pursues a long/short equity strategy to diversify risk and reduce volatility.

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 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.

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 ML Winton Hedge Fund pursues a managed futures strategy to diversify risk and reduce volatility.

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.

The Sirios Hedge Fund pursues a long/short equity strategy to diversify risk and reduce volatility.

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

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

The University of Akron Foundation Fund, LP (the "Foundation Fund") seeks to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Foundation Fund 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 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 and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### 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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (853,956)	\$ 25,657,595	\$ 97,220,647	\$ 122,024,286
Board-designated (quasi-endowment)	<u>4,251,939</u>	<u>-</u>	<u>-</u>	<u>4,251,939</u>
Total funds	<u>\$ 3,397,983</u>	<u>\$ 25,657,595</u>	<u>\$ 97,220,647</u>	<u>\$ 126,276,225</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ 556,803	\$ 16,602,661	\$ 93,701,949	\$ 110,861,413
Investment return:				
Investment (loss) income	(24,888)	(631,803)	32,385	(624,306)
Net appreciation	<u>3,068,595</u>	<u>13,074,180</u>	<u>1,019,199</u>	<u>17,161,974</u>
Total investment return	3,043,707	12,442,377	1,051,584	16,537,668
Contributions	-	-	2,626,392	2,626,392
Appropriation of endowment assets for expenditure	(154,495)	(3,566,890)	(146,240)	(3,867,625)
Other changes:				
Change in donor designations	(48,032)	179,447	(28,638)	102,777
Rental income	<u>-</u>	<u>-</u>	<u>15,600</u>	<u>15,600</u>
Endowment net assets - End of the year	<u>\$ 3,397,983</u>	<u>\$ 25,657,595</u>	<u>\$ 97,220,647</u>	<u>\$ 126,276,225</u>

# The University of Akron Foundation and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

#### 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>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 and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

#### 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 \$969,023 and \$3,410,441 as of June 30, 2014 and 2013, respectively (see Note 12). These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

During the years ended June 30, 2014 and 2013, donors released a portion of a permanently restricted endowment fund. The release of \$28,638 and \$527,498, 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.

# **The University of Akron Foundation and Subsidiary**

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## **Notes to Consolidated Financial Statements June 30, 2014 and 2013**

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

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

During fiscal year 2014, the Foundation investment and spending policy stipulates that 4.5 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. During fiscal year 2013 the investment and spending policy stipulated 5 percent of a three-year rolling average of the market value was 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 3 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 and Subsidiary

## Consolidating Statement of Financial Position June 30, 2014

	University of Akron Foundation	Nash Street LLC	Eliminations	Total
<b>Assets</b>				
Cash	\$ 2,114,474	\$ 877	\$ -	\$ 2,115,351
Accounts and notes receivable	5,437,662	995	(4,646,375)	792,282
Pledges receivable - Net of allowance and discount	8,482,067	-	-	8,482,067
Investments - At fair value	170,233,127	-	-	170,233,127
Investments held for others	1,954,194	-	-	1,954,194
Property - Net	9,284,909	4,631,851	-	13,916,760
Net investment in direct financing lease	65,371	-	-	65,371
Beneficial interest in real estate	335,000	-	-	335,000
Total assets	<b>\$ 197,906,804</b>	<b>\$ 4,633,723</b>	<b>\$ (4,646,375)</b>	<b>\$ 197,894,152</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 194,373	\$ 4,646,375	\$ (4,646,375)	\$ 194,373
Amounts payable to the University	123,590	-	-	123,590
Deposit - Austen BioInnovation Institute in Akron	1,954,194	-	-	1,954,194
Deferred revenue	31,152	-	-	31,152
Line of credit	5,011,000	-	-	5,011,000
Annuity/unitrust agreements and refundable advances	11,999,996	-	-	11,999,996
Total liabilities	19,314,305	4,646,375	(4,646,375)	19,314,305
<b>Net Assets</b>				
Unrestricted	8,635,771	(12,652)	-	8,623,119
Temporarily restricted	65,622,448	-	-	65,622,448
Permanently restricted	104,334,280	-	-	104,334,280
Total net assets	178,592,499	(12,652)	-	178,579,847
Total liabilities and net assets	<b>\$ 197,906,804</b>	<b>\$ 4,633,723</b>	<b>\$ (4,646,375)</b>	<b>\$ 197,894,152</b>

# The University of Akron Foundation and Subsidiary

## Consolidating Statement of Activities Year Ended June 30, 2014

	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	\$ 1,942,718	\$ -	\$ 1,942,718	\$ 5,716,473	\$ 2,144,724	\$ 9,803,915
Net change in the fair value of investments	3,113,993	-	3,113,993	15,444,175	1,019,199	19,577,367
Change in fair value of annuity/unitrust agreements	120,013	-	120,013	6,138	3,318,262	3,444,413
Dividend and net investment income (loss)	2,006,303	-	2,006,303	(544,346)	43,183	1,505,140
Rental income	1,443	8,187	9,630	2,225	15,600	27,455
Other income	76,512	-	76,512	19,330	-	95,842
<b>Total revenue and other additions - Net</b>	<b>7,260,982</b>	<b>8,187</b>	<b>7,269,169</b>	<b>20,643,995</b>	<b>6,540,968</b>	<b>34,454,132</b>
<b>Release of Restrictions</b>	<b>6,328,783</b>	<b>-</b>	<b>6,328,783</b>	<b>(6,182,543)</b>	<b>(146,240)</b>	<b>-</b>
<b>Total revenue and other additions and release of restrictions</b>	<b>13,589,765</b>	<b>8,187</b>	<b>13,597,952</b>	<b>14,461,452</b>	<b>6,394,728</b>	<b>34,454,132</b>
<b>Expenses</b>						
Distributions to or for The University of Akron:						
Direct distributions to the University	8,280,447	-	8,280,447	-	-	8,280,447
Distributions on behalf of the University	556,103	-	556,103	-	-	556,103
Administration of the Foundation:						
Services performed by University personnel	486,840	-	486,840	-	-	486,840
Professional fees	169,098	-	169,098	-	-	169,098
Office expenses	106,398	-	106,398	-	-	106,398
Other expenses	141,574	50,531	192,105	-	-	192,105
<b>Total expenses</b>	<b>9,740,460</b>	<b>50,531</b>	<b>9,790,991</b>	<b>-</b>	<b>-</b>	<b>9,790,991</b>
<b>Change in Donor Designation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,638</b>	<b>(28,638)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>3,849,305</b>	<b>(42,344)</b>	<b>3,806,961</b>	<b>14,490,090</b>	<b>6,366,090</b>	<b>24,663,141</b>
<b>Net Assets - Beginning 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>
<b>Net Assets - End of year</b>	<b>\$ 8,635,771</b>	<b>\$ (12,652)</b>	<b>\$ 8,623,119</b>	<b>\$ 65,622,448</b>	<b>\$ 104,334,280</b>	<b>\$ 178,579,847</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 and Subsidiary

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 and Subsidiary (the "Foundation"), a discretely presented component unit of the University of Akron, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated 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 13, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The University of Akron Foundation and Subsidiary'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 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 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.



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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The University of Akron Foundation and Subsidiary'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 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.

*Plante & Moran, PLLC*

October 13, 2014

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# Dave Yost • Auditor of State

THE UNIVERSITY OF AKRON FOUNDATION AND SUBSIDIARY

SUMMIT COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 31, 2014