

The University of Akron Foundation and Subsidiary

**Consolidated Financial Statements
with Additional Information
June 30, 2016 and 2015**



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, 2015 through June 30, 2016. 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 14, 2016

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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, 2016 and 2015 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with 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 audits 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, 2016 and 2015 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 described in Note 13, the consolidated financial statements included investments valued at approximately \$114,520,000 (66 percent of net assets) at June 30, 2016 and \$121,350,000 (69 percent of net assets) at June 30, 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 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 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 3, 2016

The University of Akron Foundation and Subsidiary

Consolidated Statement of Financial Position

	June 30	
	2016	2015
Assets		
Cash	\$ 587,651	\$ 1,318,666
Accounts and notes receivable	359,603	186,390
Pledges receivable - Net of allowance and discount (Note 3)	16,395,412	11,198,978
Investments - At fair value (Note 4)	160,853,249	167,537,092
Property - Net (Note 5)	12,157,242	12,335,525
Net investment in direct financing lease (Note 6)	11,278	38,324
Beneficial interest in real estate (Note 7)	335,000	335,000
Total assets	\$ 190,699,435	\$ 192,949,975
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 446,932	\$ 739,141
Amounts payable to the University (Note 8)	91,900	23,034
Deferred revenue	28,627	29,085
Line of credit (Note 9)	4,861,000	4,901,000
Annuity/Unitrust agreements and refundable advances (Notes 7 and 10)	12,094,922	13,252,020
Total liabilities	17,523,381	18,944,280
Net Assets		
Unrestricted (Note 11)	6,721,575	8,237,739
Temporarily restricted (Note 11)	51,787,759	60,101,203
Permanently restricted (Note 11)	114,666,720	105,666,753
Total net assets	173,176,054	174,005,695
Total liabilities and net assets	\$ 190,699,435	\$ 192,949,975

The University of Akron Foundation and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Additions (Reductions)				
Contributions	\$ 3,398,228	\$ 2,522,847	\$ 9,665,480	\$ 15,586,555
Net change in the fair value of investments	(3,273,096)	(2,672,948)	(511,565)	(6,457,609)
Change in fair value of annuity/unitrust agreements	(58,997)	36	(151,931)	(210,892)
Loss on sale of property related to annuity	-	-	(30,000)	(30,000)
Dividend and net investment income	1,950,701	615,746	49,558	2,616,005
Rental income	458	-	20,975	21,433
Other income	12,976	15,840	455,147	483,963
Total revenue and other additions - Net	2,030,270	481,521	9,497,664	12,009,455
Release of Restrictions				
Total revenue and other additions (reductions) and release of restrictions	11,322,932	(8,428,431)	9,114,954	12,009,455
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 12)	11,370,127	-	-	11,370,127
Distributions on behalf of the University	610,200	-	-	610,200
Administration of the Foundation:				
Services performed by university personnel (Note 12)	486,883	-	-	486,883
Professional fees	192,165	-	-	192,165
Office expenses	23,174	-	-	23,174
Other expenses	156,547	-	-	156,547
Total expenses	12,839,096	-	-	12,839,096
Change in Donor Designation	-	114,987	(114,987)	-
Change in Net Assets	(1,516,164)	(8,313,444)	8,999,967	(829,641)
Net Assets - Beginning of year	8,237,739	60,101,203	105,666,753	174,005,695
Net Assets - End of year	<u>\$ 6,721,575</u>	<u>\$ 51,787,759</u>	<u>\$ 114,666,720</u>	<u>\$ 173,176,054</u>

The University of Akron Foundation and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Additions (Reductions)				
Contributions	\$ 2,548,500	\$ 7,730,996	\$ 4,330,545	\$ 14,610,041
Net change in the fair value of investments	(1,075,529)	(3,889,957)	(543,521)	(5,509,007)
Change in fair value of annuity/unitrust agreements	(84,468)	(698)	(870,160)	(955,326)
Impairment loss	-	-	(1,619,700)	(1,619,700)
Loss on sale of property	(34,000)	-	-	(34,000)
Dividend and net investment income	2,115,856	591,688	96,311	2,803,855
Rental income	1,067	925	14,850	16,842
Other income	45,513	22,944	-	68,457
Total revenue and other additions - Net	3,516,939	4,455,898	1,408,325	9,381,162
Release of Restrictions	<u>10,052,995</u>	<u>(9,763,688)</u>	<u>(289,307)</u>	<u>-</u>
Total revenue and other additions (reductions) and release of restrictions	13,569,934	(5,307,790)	1,119,018	9,381,162
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 12)	12,522,181	-	-	12,522,181
Distributions on behalf of the University	422,147	-	-	422,147
Administration of the Foundation:				
Services performed by university personnel (Note 12)	489,165	-	-	489,165
Professional fees	273,777	-	-	273,777
Office expenses	68,258	-	-	68,258
Other expenses	179,786	-	-	179,786
Total expenses	13,955,314	-	-	13,955,314
Change in Donor Designation	<u>-</u>	<u>(213,455)</u>	<u>213,455</u>	<u>-</u>
Change in Net Assets	<u>(385,380)</u>	<u>(5,521,245)</u>	<u>1,332,473</u>	<u>(4,574,152)</u>
Net Assets - Beginning of year	<u>8,623,119</u>	<u>65,622,448</u>	<u>104,334,280</u>	<u>178,579,847</u>
Net Assets - End of year	<u>\$ 8,237,739</u>	<u>\$ 60,101,203</u>	<u>\$ 105,666,753</u>	<u>\$ 174,005,695</u>

The University of Akron Foundation and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (829,641)	\$ (4,574,152)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	6,457,609	5,509,007
Contributions restricted for long-term investment	(9,665,480)	(4,330,545)
Change in fair value of annuity/unitrust agreements	210,892	955,326
Change in fair value of refundable advances	(4,019)	-
Loss on impairment of property	-	1,619,700
Loss on sale of property	30,000	34,000
Depreciation expense	3,283	30,381
Change in allowance for doubtful accounts	358,307	143,747
Change in pledge discount	1,725,864	(871,092)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(173,213)	605,892
Pledges receivable	(7,280,605)	(1,989,566)
Accounts payable and other liabilities	(223,802)	442,145
Funds held for others	-	(1,954,194)
Net cash used in operating activities	<u>(9,390,805)</u>	<u>(4,379,351)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	42,000,358	46,594,489
Purchase of investments	(41,773,721)	(47,479,711)
Purchase of property	-	(309,146)
Proceeds from the sale of properties	<u>145,000</u>	<u>181,300</u>
Net cash provided by (used in) investing activities	371,637	(1,013,068)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	9,665,480	4,330,545
Investment subject to annuity agreements	75,000	1,911,275
Other financing activities:		
Net payments on line of credit	(40,000)	(110,000)
Interest and dividends restricted for annuity agreements	158,951	137,670
Net change in restricted annuity agreements	(175,034)	(218,169)
Payments of annuity obligations	<u>(1,396,244)</u>	<u>(1,455,587)</u>
Net cash provided by financing activities	<u>8,288,153</u>	<u>4,595,734</u>
Net Decrease in Cash	<u>(731,015)</u>	<u>(796,685)</u>
Cash - Beginning of year	<u>1,318,666</u>	<u>2,115,351</u>
Cash - End of year	<u>\$ 587,651</u>	<u>\$ 1,318,666</u>
Supplemental Cash Flow Information - Cash paid for interest	<u>\$ 52,016</u>	<u>\$ 45,512</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 1 - 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

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 University of Akron Foundation (UAF) and Nash Street LLC (Nash Street), for which UAF is the sole member. Nash Street was formed in March 2006 specifically to engage in the acquisition of real property for the benefit of UAF and the University. Nash Street is disregarded for federal income tax purposes and all of its income, losses, deductions, and credits are reported by the Foundation. All significant intercompany transactions have been eliminated in consolidation. During the year ended June 30, 2016, Nash Street ceased operations and, accordingly, no related amounts are reported on the consolidated statement of financial position as of June 30, 2016.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations. 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.

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 on cash.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair values of investments are based on quoted market prices. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Alternatives are recorded at their most recent available valuation as provided by the investment custodian. Donated investments including donated property are recorded as contributions at fair value on the date received. Realized gains (losses) on investments are the difference between the proceeds received and the fair market value of investments sold. Net appreciation in the fair value of investments (including realized 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 \$738,000 and \$867,000 for the years ended June 30, 2016 and 2015, respectively, on the consolidated statement of activities.

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.

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 14, the Foundation has interpreted this act as requiring the preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment fund. Under this interpretation, if the market value of an endowment drops below the historic gift value, the endowment is considered to be underwater. The net depreciation of an underwater endowment will reduce unrestricted net assets. Any future gains will be used to restore the cumulative deficiency within unrestricted net assets. Once unrestricted net assets have been fully restored, net appreciation will be recorded within either temporarily or permanently restricted net assets, as required by the donor's restriction.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

During the year ended June 30, 2015, properties were deemed to be impaired and written down to their fair value. The carrying value of the assets exceeded their fair value, which was determined by a sales comparison of the properties' competitive market area by \$1,619,700. An impairment loss of that amount has been charged to operations for the year ended June 30, 2015. There were no impairment losses for the year ended June 30, 2016.

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, 2016 and 2015

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, 2016 and 2015, total fundraising costs were approximately \$209,000 and \$321,000, 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.

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.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Estimates - The preparation of consolidated 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, 2016 and 2015 is \$12,094,922 and \$13,252,020, respectively.

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements - In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact this standard will have on the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 3, 2016, which is the date the consolidated financial statements were available to be issued.

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, 2016 and 2015, the future expected cash flows from pledges receivable have been discounted using a discount rate of 1.01 percent and 1.63 percent, respectively.

Pledges receivable at June 30, 2016 and 2015 are expected to be realized in the following periods:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 2,421,793	\$ 3,236,089
One to five years	7,676,264	5,728,642
More than five years	<u>11,520,229</u>	<u>5,372,950</u>
Total	21,618,286	14,337,681
Less amount estimated to be uncollectible	(1,353,345)	(995,038)
Less unamortized discount	<u>(3,869,529)</u>	<u>(2,143,665)</u>
Total pledges receivable - Net	<u>\$ 16,395,412</u>	<u>\$ 11,198,978</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 3 - Pledges Receivable (Continued)

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, 2016, the Foundation has \$20,055,437 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable or recognized as revenue because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

Note 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, 2016 and 2015 were as follows:

	2016	2015
Pooled investment funds managed for the Foundation:		
The University of Akron Foundation Fund, LP	\$ 114,519,667	\$ 121,349,682
Bonds	12,309,749	9,845,015
Commercial paper	2,500,000	2,499,759
Common stocks	1,760,723	1,858,172
Exchange traded funds	134,173	108,418
Floater	2,030,000	4,560,000
Insurance policies - Cash surrender value	42,102	78,760
Money market funds	4,433,097	3,764,305
Mutual funds	21,799,985	23,137,539
Preferred stocks	68,530	80,638
U.S. Treasury obligations	1,255,223	254,804
	<u>\$ 160,853,249</u>	<u>\$ 167,537,092</u>
Total fair value		
	<u>\$ 160,853,249</u>	<u>\$ 167,537,092</u>
Total cost	<u>\$ 163,445,370</u>	<u>\$ 163,655,863</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 5 - Property

Property consists of the following at June 30, 2016 and 2015:

	Non-		Total	
	depreciable	Depreciable	2016	2015
Avery Place Property	\$ 12,017	\$ -	\$ 12,017	\$ 12,017
Brown Street Property	81,000	-	81,000	81,000
Copley Road Property	-	-	-	175,000
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	418,833
Harvey Court Property	47,182	-	47,182	47,182
Heritage Centre	3,000,000	-	3,000,000	3,000,000
Miller Parkway Land	155,825	-	155,825	155,825
N Pershing Avenue Property	91,985	-	91,985	91,985
Treeside Drive Property	16,250	48,750	65,000	65,000
Union Street Property	126,460	-	126,460	126,460
University Village Property	4,922,887	-	4,922,887	4,922,887
Wheeler Street Property A	176,045	-	176,045	176,045
Wheeler Street Property B	108,743	-	108,743	108,743
Less accumulated depreciation	-	(35,315)	(35,315)	(32,032)
Total	<u>\$ 12,061,267</u>	<u>\$ 95,975</u>	<u>\$ 12,157,242</u>	<u>\$ 12,335,525</u>

During the year ended June 30, 2016, property valued at \$175,000 was sold for \$145,000, resulting in a loss on sale of property in the amount of \$30,000. During the year ended June 30, 2015, property valued at \$215,300 was sold for \$181,300, resulting in a loss on sale of property in the amount of \$34,000.

During the year ended June 30, 2015, other properties were deemed to be impaired and written down to their fair value. The carrying value of the assets exceeded their fair value, which was determined by a sales comparison of the properties' competitive market area by \$1,619,700. The impairment event is the result of a sales contract entered into during fiscal year 2016. An impairment loss of that amount has been charged to operations for the year ended June 30, 2015. There were no other impairment losses for the year ended June 30, 2016.

Depreciation expense on rented properties totaled \$3,283 and \$30,381 for the years ended June 30, 2016 and 2015, respectively.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 6 - 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 consist of both principal and interest imputed at 2.06 percent per annum. As of June 30, 2016 and 2015, the present value of future payments to be received totaled approximately \$11,000 and \$38,000, respectively, as presented on the consolidated statement of financial position.

Note 7 - 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 American Council on Gift Annuities (ACGA) tables (discount rates used at June 30, 2016 and 2015 were 1.80 percent and 2.00 percent, respectively), based on the term of the agreement, as a liability of \$109,518 and \$112,387 at June 30, 2016 and 2015, respectively.

Note 8 - Amounts Payable to the University

The Foundation may at times receive gifts on behalf of the University. At June 30, 2016 and 2015, the Foundation owed the University \$91,900 and \$23,034, respectively, for such gifts received. During the years ended June 30, 2016 and 2015, the Foundation recorded \$1,820,861 and \$2,494,996, respectively, of contribution revenue for amounts received on behalf of the University.

Note 9 - 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, 2016 and 2015, the interest rate on the revolver was 1.15 and 0.90 percent, respectively. At June 30, 2016 and 2015, there was \$4,861,000 and \$4,901,000 outstanding under this agreement, respectively.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 9 - Line of Credit (Continued)

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 reimburse the Foundation for 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 5.

Note 10 - 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 ACGA tables (discount rates used at June 30, 2016 and 2015 were 1.80 percent and 2.00 percent, respectively) based on the term of the agreement, as a liability. The balance of the gift is recorded as unrestricted, temporarily restricted, or permanently restricted contributions, as appropriate.

The Foundation's payments to beneficiaries under the annuity and unitrust agreements reduce the annuity liability. Adjustments to the annuity liability are made to report amortization of the discount and record changes in the life expectancy of the beneficiary. These adjustments, as well as the return on the underlying investment assets (fair value of \$17,930,864 and \$19,590,464 at June 30, 2016 and 2015, 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, 2016 and 2015

Note 11 - Net Assets

Unrestricted net assets at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Current operations	\$ 5,339,628	\$ 4,466,888
Board-designated	6,370,596	5,652,312
Underwater endowment adjustment (Note 14)	<u>(4,988,649)</u>	<u>(1,881,461)</u>
Total	<u>\$ 6,721,575</u>	<u>\$ 8,237,739</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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Accumulated appreciation on true endowments	\$ 26,165,461	\$ 27,880,086
Accumulated depreciation on specific purpose funds	(7,058,201)	(2,871,665)
Specific purpose funds	24,129,398	25,265,413
Annuity and unitrust agreements	13,456	13,420
Pledges receivable	<u>8,537,645</u>	<u>9,813,949</u>
Total	<u>\$ 51,787,759</u>	<u>\$ 60,101,203</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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment funds (Note 14)	\$ 100,731,251	\$ 97,749,457
Annuity and unitrust agreements	6,077,702	6,532,270
Pledges receivable	<u>7,857,767</u>	<u>1,385,026</u>
Total	<u>\$ 114,666,720</u>	<u>\$ 105,666,753</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships and development of the University in the amount of \$9,292,662 and \$10,052,995 during fiscal years 2016 and 2015, respectively.

During the year ended June 30, 2016, donors agreed to release \$114,987 in permanently restricted net assets for the purpose of paying back deficiencies resulting from unfavorable market fluctuations. During the year ended June 30, 2015, donors agreed to permanently restrict \$213,455 in temporarily restricted net assets for the purpose of creating endowments. See Note 14 for additional information.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 12 - 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, 2016 and 2015, distributions transferred to the University of \$11,600,308 and \$12,879,432, respectively, are gross of amounts received from the University of \$230,181 and \$357,251, respectively.

The University allocated certain overhead expenses to the Foundation totaling \$486,883 and \$489,165 in fiscal years 2016 and 2015, 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 13 - 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 fund statements, 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 University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 13 - Fair Value Measurements (Continued)

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, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

As of July 1, 2015, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy described above and the information for 2015 has been adjusted to conform to the new disclosure requirements.

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015 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, 2016

	Balance at June 30, 2016	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					
Pooled investment funds managed for the Foundation	\$ 114,519,667	\$ -	\$ -	\$ -	\$ 114,519,667
Bonds	12,309,749	-	12,309,749	-	-
Commercial paper	2,500,000	-	2,500,000	-	-
Common stocks	1,760,723	1,760,723	-	-	-
Exchange traded funds	134,173	134,173	-	-	-
Floater	2,030,000	-	2,030,000	-	-
Money market mutual funds	4,433,097	4,433,097	-	-	-
Mutual funds	21,799,985	21,799,985	-	-	-
Preferred stocks	68,530	68,530	-	-	-
U.S. Treasury obligations	1,255,223	-	1,255,223	-	-
Beneficial interest in real estate	335,000	-	-	335,000	-
Liabilities					
Annuity/unitrust agreements and refundable advances	(12,094,922)	-	-	(12,094,922)	-

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 13 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2015

	Balance at June 30, 2015	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					
Pooled investment funds managed for the Foundation	\$ 121,349,682	\$ -	\$ -	\$ -	\$ 121,349,682
Bonds	9,845,015	-	9,845,015	-	-
Commercial paper	2,499,759	-	2,499,759	-	-
Common stocks	1,858,172	1,858,172	-	-	-
Exchange traded funds	108,418	108,418	-	-	-
Floater	4,560,000	-	4,560,000	-	-
Money market mutual funds	3,764,305	3,764,305	-	-	-
Mutual funds	23,137,539	23,137,539	-	-	-
Preferred stocks	80,638	80,638	-	-	-
U.S. Treasury obligations	254,804	-	254,804	-	-
Beneficial interest in real estate	335,000	-	-	335,000	-
Liabilities					
Annuity/unitrust agreements and refundable advances	(13,252,020)	-	-	(13,252,020)	-

Included in the Level 1 money market and mutual funds above is approximately \$3,500,000 and \$2,800,000 invested in a PNC Fidelity Prime Money Market Fund as of June 30, 2016 and 2015, respectively. All investment allocations are in accordance with the Foundation's investment policy as described on page 22. No other significant concentrations of investments exist as of June 30, 2016 or 2015.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016

	Private Equity Funds	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2015	\$ -	\$ 335,000	\$ (13,252,020)
Total (losses) gains included in changes in net assets:			
Unrealized	-	-	(42,680)
Realized	-	-	(23,813)
Purchases	-	-	(225,814)
Sales	-	-	1,449,405
Maturities	-	-	-
Transfers within Level 3	-	-	-
Balance at June 30, 2016	\$ -	\$ 335,000	\$ (12,094,922)

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 13 - Fair Value Measurements (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2015

	Private Equity Funds	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2014	\$ 6,188,253	\$ 335,000	\$ (11,999,996)
Total (losses) gains included in changes in net assets:			
Unrealized	-	-	(407,141)
Realized	10,140	-	(708,500)
Purchases	-	-	(1,641,630)
Sales	(212,478)	-	1,505,247
Transfers within Level 3	(5,985,915)	-	-
Balance at June 30, 2015	<u>\$ -</u>	<u>\$ 335,000</u>	<u>\$ (13,252,020)</u>

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%

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 13 - Fair Value Measurements (Continued)

Measurement of Level 3 Assets and Liabilities

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

	Unobservable Inputs Used to Measure Level 3 Assets and Liabilities					
	Fair Value at		Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)	
	June 30, 2016	June 30, 2015				
Assets -						
Beneficial interest in real estate	\$ 335,000	\$ 335,000	Market comparables	Third-party appraisal	100%	
Liabilities -						
Annuity/unitrust agreements and refundable advances	\$ (12,094,922)	\$ (13,252,020)	ACGA actuarial tables Discounted cash flow	Life expectancy of beneficiaries Risk-free rate of return	2.8 - 56.9 years 1 - 2%	

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. As of June 30, 2015, property was valued at \$3,000,000 using this method, and is included in Property - Net on the consolidated statement of financial position (see Note 5 for further information).

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.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 13 - Fair Value Measurements (Continued)

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

	June 30, 2016		June 30, 2015		Redemption Frequency	Redemption Notice Period
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments		
The University of Akron Foundation Fund, LP	\$ 114,519,667	\$ -	\$ 121,349,682	\$ -	Quarterly	At least 45 days

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 14 - 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, 2016 and 2015

Note 14 - 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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (4,907,384)	\$ 13,201,939	\$ 100,731,251	\$ 109,025,806
Board-designated (quasi-endowment)	<u>3,568,174</u>	<u>-</u>	<u>-</u>	<u>3,568,174</u>
Total funds	<u>\$ (1,339,210)</u>	<u>\$ 13,201,939</u>	<u>\$ 100,731,251</u>	<u>\$ 112,593,980</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ 2,136,450	\$ 18,769,637	\$ 97,749,457	\$ 118,655,544
Investment return:				
Investment income	9,810	556,106	54,212	620,128
Net depreciation	<u>(3,309,022)</u>	<u>(2,672,948)</u>	<u>(514,850)</u>	<u>(6,496,820)</u>
Total investment return	(3,299,212)	(2,116,842)	(460,638)	(5,876,692)
Contributions	-	369,796	3,219,166	3,588,962
Appropriation of endowment assets for expenditure	(152,392)	(5,898,718)	(394,423)	(6,445,533)
Other changes:				
Change in donor designations	(24,056)	2,078,066	141,567	2,195,577
Other income	-	-	455,147	455,147
Rental income	<u>-</u>	<u>-</u>	<u>20,975</u>	<u>20,975</u>
Endowment net assets - End of the year	<u>\$ (1,339,210)</u>	<u>\$ 13,201,939</u>	<u>\$ 100,731,251</u>	<u>\$ 112,593,980</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (1,788,184)	\$ 18,769,637	\$ 97,749,457	\$ 114,730,910
Board-designated (quasi-endowment)	<u>3,924,634</u>	<u>-</u>	<u>-</u>	<u>3,924,634</u>
Total funds	<u>\$ 2,136,450</u>	<u>\$ 18,769,637</u>	<u>\$ 97,749,457</u>	<u>\$ 118,655,544</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ 3,397,983	\$ 25,657,595	\$ 97,220,647	\$ 126,276,225
Investment return:				
Investment income	7,137	212,201	88,549	307,887
Net depreciation	<u>(1,093,737)</u>	<u>(3,404,909)</u>	<u>(2,163,221)</u>	<u>(6,661,867)</u>
Total investment return	(1,086,600)	(3,192,708)	(2,074,672)	(6,353,980)
Contributions	-	-	2,622,779	2,622,779
Appropriation of endowment assets for expenditure	(150,390)	(3,617,715)	(284,841)	(4,052,946)
Other changes:				
Change in donor designations	(24,543)	(77,535)	250,694	148,616
Rental income	<u>-</u>	<u>-</u>	<u>14,850</u>	<u>14,850</u>
Endowment net assets - End of the year	<u>\$ 2,136,450</u>	<u>\$ 18,769,637</u>	<u>\$ 97,749,457</u>	<u>\$ 118,655,544</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 14 - 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 \$4,988,649 and \$1,881,461 as of June 30, 2016 and 2015, respectively (see Note 11). These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

The Foundation has certain endowment agreements where a portion of accumulated appreciation is to remain in permanently restricted with the original corpus. In addition, the Foundation has interpreted the language in some of these agreements where if at any time current income is not sufficient to cover distributions from these agreements, then a portion of the accumulated appreciation in permanently restricted is released. During the years ended June 30, 2016 and 2015, the Foundation released \$382,710 and \$289,307, respectively, in accordance with this policy.

During the year ended June 30, 2016 donors released a portion of a permanently restricted endowment fund. The release of \$114,987 is shown on the consolidated statement of activities as changes in donor designation. During the year ended June 30, 2015 donors increased the permanently restricted endowment fund by \$213,455 which 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 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.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 14 - Donor-restricted and Board-designated Endowments (Continued)

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 Related to Spending Policy

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 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 current spending policy to allow its endowment to keep pace with inflation. 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.

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 consolidated financial statements of The University of Akron Foundation and Subsidiary (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 3, 2016.

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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's consolidated 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 consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Plante & Morse, PLLC

October 3, 2016

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Dave Yost • Auditor of State

UNIVERSITY OF AKRON FOUNDATION

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 27, 2016