

**THE UNIVERSITY OF AKRON FOUNDATION**  
Akron, Ohio

**FINANCIAL STATEMENTS**  
June 30, 2018 and 2017





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The University of Akron Foundation, Summit County, prepared by Crowe LLP, for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 20, 2018

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THE UNIVERSITY OF AKRON FOUNDATION

Akron, Ohio

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The University of Akron Foundation

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

We have audited the accompanying financial statements of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of The University of Akron, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of The University of Akron Foundation as of June 30, 2017, were audited by other auditors whose report dated September 29, 2017, expressed an unmodified opinion on those statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of The University of Akron Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Foundation's internal control over financial reporting and compliance.



Crowe LLP

Columbus, Ohio  
October 15, 2018



THE UNIVERSITY OF AKRON FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 70,565	\$ 582,234
Accounts and notes receivable	382,708	205,396
Pledges receivable - Net of allowance and discount (Note 3)	27,203,636	19,933,941
Land notes receivable	5,492,000	4,904,714
Investments - At fair value (Note 4)	185,336,384	171,120,028
Property - Net (Note 5)	2,282,777	5,967,898
Beneficial interest in real estate (Note 6)	<u>335,000</u>	<u>335,000</u>
Total assets	221,103,070	203,049,211
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	966,153	959,163
Contributions payable to the University (Note 7)	39,790	91,453
Funds held for others	143,533	-
Deferred revenue	28,500	28,500
Term loan (Note 8)	4,592,000	4,784,000
Annuity/Unitrust agreements and refundable advance (Notes 6 and 9)	<u>11,751,945</u>	<u>12,702,901</u>
Total liabilities	17,521,921	18,566,017
Unrestricted (Note 10)	8,197,262	9,701,635
Temporarily restricted (Note 10)	57,664,610	58,527,001
Permanently restricted (Note 10)	<u>137,719,277</u>	<u>116,254,558</u>
Total net assets	203,581,149	184,483,194
 Total liabilities and net assets	 <u>\$ 221,103,070</u>	 <u>\$ 203,049,211</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF AKRON FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue and other additions (reductions)</b>				
Contributions	\$ 2,648,588	\$ 2,141,539	\$ 21,407,798	\$ 26,197,925
Net change in the fair value of investments	642,563	5,218,032	770,586	6,631,181
Change in fair value of annuity/unitrust agreements	(965,922)	(2,056)	1,028,774	60,796
Impairment loss	(435,120)	-	(25,484)	(460,604)
Dividend and net investment income	1,661,756	1,100,996	87,285	2,850,037
Other income	112,847	41,657	-	154,504
<b>Total revenue and other additions - Net</b>	<b>3,664,712</b>	<b>8,500,168</b>	<b>23,268,959</b>	<b>35,433,839</b>
<b>Release of Restrictions</b>	<b>11,166,799</b>	<b>(10,856,552)</b>	<b>(310,247)</b>	<b>-</b>
<b>Total revenue and other additions (reductions) and release of restrictions</b>	<b>14,831,511</b>	<b>(2,356,384)</b>	<b>22,958,712</b>	<b>35,433,839</b>
<b>Expenses</b>				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 11)	14,573,661	-	-	14,573,661
Distributions on behalf of the University	498,830	-	-	498,830
Administration of the Foundation:				
Services performed by University personnel (Note 11)	749,075	-	-	749,075
Professional fees	72,573	-	-	72,573
Office expenses	23,795	-	-	23,795
Other expenses	417,950	-	-	417,950
<b>Total expenses</b>	<b>16,335,884</b>	<b>-</b>	<b>-</b>	<b>16,335,884</b>
<b>Change in Donor Designation</b>	<b>-</b>	<b>1,493,993</b>	<b>(1,493,993)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(1,504,373)</b>	<b>(862,391)</b>	<b>21,464,719</b>	<b>19,097,955</b>
<b>Net Assets - Beginning of year</b>	<b>9,701,635</b>	<b>58,527,001</b>	<b>116,254,558</b>	<b>184,483,194</b>
<b>Net Assets - End of year</b>	<b>\$ 8,197,262</b>	<b>\$ 57,664,610</b>	<b>\$ 137,719,277</b>	<b>\$ 203,581,149</b>

See accompanying notes to financial statements.

THE UNIVERSITY OF AKRON FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue and other additions (reductions)</b>				
Contributions	\$ 2,307,112	\$ 9,495,698	\$ 2,613,643	\$ 14,416,453
Net change in the fair value of investments	3,312,014	8,908,298	188,403	12,408,715
Change in fair value of annuity/unitrust agreements	32,583	(1,105)	(198,921)	(167,443)
Impairment loss	-	-	(750,000)	(750,000)
Loss on sale of property	-	-	(91,678)	(91,678)
Dividend and net investment income	2,045,011	(222,197)	66,347	1,889,161
Other income	<u>65,822</u>	<u>22,330</u>	<u>5,600</u>	<u>93,752</u>
Total revenue and other additions - Net	7,762,542	18,203,024	1,833,394	27,798,960
<b>Release of Restrictions</b>	<u>11,709,338</u>	<u>(11,444,782)</u>	<u>(264,556)</u>	<u>-</u>
Total revenue and other additions (reductions) and release of restrictions	19,471,880	6,758,242	1,568,838	27,798,960
<b>Expenses</b>				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 11)	13,939,493	-	-	13,939,493
Distributions on behalf of the University	904,973	-	-	904,973
Administration of the Foundation:				
Services performed by University personnel (Note 11)	1,203,392	-	-	1,203,392
Professional fees	75,832	-	-	75,832
Office expenses	22,429	-	-	22,429
Other expenses	<u>345,701</u>	<u>-</u>	<u>-</u>	<u>345,701</u>
Total expenses	16,491,820	-	-	16,491,820
<b>Change in Donor Designation</b>	<u>-</u>	<u>(19,000)</u>	<u>19,000</u>	<u>-</u>
<b>Change in Net Assets</b>	2,980,060	6,739,242	1,587,838	11,307,140
<b>Net Assets - Beginning of year</b>	<u>6,721,575</u>	<u>51,787,759</u>	<u>114,666,720</u>	<u>173,176,054</u>
<b>Net Assets - End of year</b>	<u>\$ 9,701,635</u>	<u>\$ 58,527,001</u>	<u>\$ 116,254,558</u>	<u>\$ 184,483,194</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF AKRON FOUNDATION  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 19,097,955	\$ 11,307,140
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	(6,631,181)	(12,408,715)
Contributions restricted for long-term investment	(10,098,451)	(2,613,643)
Change in fair value of annuity/unitrust agreements	(60,796)	167,443
Change in fair value of refundable advances	4,468	7,172
Loss on impairment of property	1,435,121	750,000
Loss on sale of property	-	91,678
Depreciation expense	-	(17,168)
Change in allowance for doubtful accounts	81,039	(236,903)
Change in pledge discount	180,846	65,712
Changes in operating assets and liabilities:		
Accounts and notes receivable	(177,312)	154,215
Pledges receivable	(7,531,580)	(3,367,338)
Accounts payable and other liabilities	(44,673)	511,784
Funds held for others	<u>143,533</u>	<u>-</u>
Net cash used in operating activities	<u>(3,601,031)</u>	<u>(5,588,623)</u>
<b>Cash Flows from Investing Activities</b>		
Change in promissory notes receivable	(587,286)	(4,904,714)
Proceeds from sale of investments	28,401,074	36,976,595
Purchase of investments	(35,986,250)	(34,840,353)
Proceeds from the sale of properties	1,350,000	157,160
Issuance of Note Receivable	900,000	-
Property transferred to related party	<u>-</u>	<u>5,207,675</u>
Net cash used in investing activities	<u>(5,922,462)</u>	<u>2,596,363</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	10,098,451	2,613,643
Investment subject to annuity agreements	54,391	51,498
Other financing activities:		
Net payments on term loan	(192,000)	(77,000)
Interest and dividends restricted for annuity agreements	(849,580)	123,236
Net change in restricted annuity agreements	955,601	1,598,218
Payments of annuity obligations	<u>(1,055,039)</u>	<u>(1,322,752)</u>
Net cash provided by financing activities	<u>9,011,824</u>	<u>2,986,843</u>
<b>Net Change in Cash</b>	(511,669)	(5,417)
<b>Cash - Beginning of year</b>	<u>582,234</u>	<u>587,651</u>
<b>Cash - End of year</b>	<u>\$ 70,565</u>	<u>\$ 582,234</u>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	<u>\$ 112,847</u>	<u>\$ 64,695</u>

See accompanying notes to financial statements.

## NOTE 1 – ORGANIZATION

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

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

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

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash: The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk 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 or at appraised market values when applicable. Alternatives, for which there is no ready market, are recorded at their net asset value according to the most recent available valuation as provided by the investment custodian. Donated investments including donated property are recorded as contributions at fair value on the date received. Realized gains (losses) on investments are the difference between the proceeds received and the fair market value of investments sold. Net appreciation in the fair value of investments (including realized and unrealized gains and losses) is included in revenue, gains, and other income of 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 \$840,000 and \$787,000 for the years ended June 30, 2018 and 2017, respectively, on the statement of activities.

During the fiscal 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 setting 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 13, 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.

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

During the year ended June 30, 2018, three properties were deemed to be impaired and written down to fair value, a portion of which is reflected in both impairment loss and change in fair value of annuity/unitrust agreements on the statement of activities. The carrying value of the assets exceeded fair value, which was determined by updated appraisals by approximately \$1,400,000. During the year ended June 30, 2017, a property was deemed impaired and written down to its fair value. The carrying value of the asset exceeded the fair value, which was determined by a pending sales agreement by \$750,000.

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

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

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

Fundraising: Fundraising costs are charged to expense as incurred. During the years ended June 30, 2018 and 2017, total fundraising costs were approximately \$247,000 and \$249,000, 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 program services, fundraising, and management and general activities. 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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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 advance, which relates to a revocable trust, is estimated by discounting expected cash inflows and outflows to present value using appropriate rates with the risk of realizing such cash inflows and outflows. The fair value of the liability of the annuity pool and refundable advance at June 30, 2018 and 2017 is \$11,751,945 and \$12,702,901, 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 statement of financial position.

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 fiscal 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 financial statements.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.

**NOTE 3 - PLEDGES RECEIVABLE**

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value, discounted using the U.S. Treasury note rate in effect the year the pledge is received. For pledges made during the years ended June 30, 2018 and 2017, the future expected cash flows from pledges receivable have been discounted using a discount rate of 2.63 and 1.89 percent, respectively.

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(Continued)



THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 3 - PLEDGES RECEIVABLE** (Continued)

Pledges receivable at June 30, 2018 and 2017 are expected to be realized in the following periods:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 16,354,192	\$ 7,402,273
One to five years	5,437,624	7,618,483
More than five years	<u>10,544,000</u>	<u>10,307,250</u>
Total	32,335,816	25,328,006
Less amount estimated to be uncollectible	(1,509,209)	(1,590,248)
Less unamortized discount	<u>(3,622,971)</u>	<u>(3,803,817)</u>
Total pledges receivable - Net	<u>\$ 27,203,636</u>	<u>\$ 19,933,941</u>

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

As of June 30, 2018, the Foundation has \$17,861,883 in numerous outstanding pledges which are considered intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable or recognized as revenues because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

**NOTE 4 – INVESTMENTS**

Investments are stated at fair value. Fluctuations in fair value, as well as gains or losses on sales of securities, are recognized in the statement of activities. The pooled investment funds are invested in diverse portfolios. Limitations have been placed on the trust fund managers to stay within specified parameters in managing the portfolios. Investments as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Pooled investment funds managed for the Foundation:		
The University of Akron Foundation Fund, LP	\$ 139,778,048	\$ 125,377,469
Bonds	8,411,254	9,627,982
Commercial paper	-	2,499,925
Common stocks	2,411,471	2,094,160
Exchange traded funds	215,746	82,876
Floater	3,920,000	3,920,000
Insurance policies - Cash surrender value	14,585	40,161
Money market funds	6,120,510	2,029,234
Mutual funds	21,909,121	23,370,147
Preferred stocks	61,538	83,126
U.S. Treasury obligations	<u>2,494,111</u>	<u>1,994,948</u>
Total fair value	<u>\$ 185,336,384</u>	<u>\$ 171,120,028</u>
Total cost	<u>\$ 169,890,961</u>	<u>\$ 160,849,010</u>

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
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June 30, 2018 and 2017

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**NOTE 5 - PROPERTY**

Property consists of the following at June 30, 2018 and 2017:

	<u>Non-depreciable</u>	<u>Total</u> 2018	<u>Total</u> 2017
Avery Place Property	\$ 12,017	\$ 12,017	\$ 12,017
Brown Street Property	81,000	81,000	81,000
East Exchange Street Property Lot A	401,385	401,385	401,385
East Exchange Street Property Lot B	370,000	370,000	675,196
East Exchange Street Property Lot C	800,000	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	-	-	2,250,000
Miller Parkway Land	25,900	25,900	155,825
Union Street Property	<u>126,460</u>	<u>126,460</u>	<u>126,460</u>
 Total	 <u>\$ 2,282,777</u>	 <u>\$ 2,282,777</u>	 <u>\$ 5,967,898</u>

During the year ended June 30, 2018, property valued at \$2,250,000 was sold for cash of \$1,350,000 and a 6% interest only note receivable of \$900,000 payable in full on December 21, 2019. During the year ended June 30, 2017, property valued at \$266,985 was sold for \$157,160, resulting in a loss on sale of property in the amount of \$91,678 and a depreciation adjustment of \$18,147.

During the year ended June 30, 2018, three properties were deemed impaired and were adjusted to fair value. The carrying value of the assets exceeded fair value, which was determined by updated appraisals by approximately \$1,400,000. During the year ended June 30, 2017, another property was deemed impaired and written down to their fair value. The carrying value of the asset exceeded fair value, which was determined by a pending sales agreement by \$750,000. The impairment event is the result of a sales contract entered into during fiscal year 2017. An impairment loss of that amount has been charged to operations for the year ended June 30, 2017.

Net depreciation expense on rented properties totaled \$0 and (\$17,168) for the years ended June 30, 2018 and 2017, respectively.

**NOTE 6 - 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, 2018 and 2017 were 3.40 and 2.40 percent, respectively), based on the term of the agreement, as a liability of \$89,751 and \$100,323 at June 30, 2018 and 2017, respectively.

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
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**NOTE 7 - CONTRIBUTIONS PAYABLE TO THE UNIVERSITY**

The Foundation at times receives gifts on behalf of the University. At June 30, 2018 and 2017, the Foundation owed the University \$39,790 and \$91,453, respectively, for such gifts received. During the years ended June 30, 2018 and 2017, the Foundation recorded \$2,572,183 and \$2,285,678, respectively, of contribution revenues for amounts received on behalf of the University.

**NOTE 8 - TERM LOAN**

In May 2012, the Foundation obtained a \$10,000,000 revolving line of credit with Fifth Third Bank. In May 2017, when the line of credit termed out, the Foundation obtained a \$4,800,000 term loan with PNC to cover the loan balance. The term loan agreement calls for monthly principle and interest payments. Principle on the term loan is \$16,000 while interest is at a fluctuating rate of the one-month LIBOR plus 0.90 percent. At June 30, 2018 and 2017, the interest rate on the loan was 2.99 and 2.12 percent, respectively. At June 30, 2018 and 2017, there was \$4,592,000 and \$4,784,000 outstanding, respectively.

The proceeds from the line of credit were used to purchase real estate adjacent to the University during fiscal year 2013. The University's commitment to reimburse the Foundation for payments of principal, interest, loan fees, and any other costs associated with the term loan, resulted in total principal payments made by the University of \$312,714 and \$302,961 as of June 30, 2018 and 2017, respectively, to the Foundation. The Foundation did not charge the University any additional interest on the note. In May 2017, the real estate was transferred to the University in the amount of \$5,207,675. The balance of \$4,592,000 is included in the land note receivable balance on the statement of financial position. On August 14, 2018, the University of Akron paid off its obligation to the Foundation in the amount of \$4,592,000 and the Foundation then settled its outstanding term loan with PNC Bank for the same amount.

**NOTE 9 - ANNUITY AND UNITRUST AGREEMENTS**

The Foundation has entered into charitable gift annuity agreements which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then 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, 2018 and 2017 were 3.40 and 2.40 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 \$15,281,236 and \$18,236,113 at June 30, 2018 and 2017, respectively), are recognized in the statement of activities as changes in the value of annuity and unitrust agreements.

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 10 - NET ASSETS**

Unrestricted net assets at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Current operations	\$ 3,561,571	\$ 3,305,330
Board-designated	6,128,184	8,366,875
Underwater endowment adjustment (Note 13)	<u>(1,492,493)</u>	<u>(1,970,570)</u>
Total	<u>\$ 8,197,262</u>	<u>\$ 9,701,635</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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Accumulated appreciation on true endowments	\$ 19,712,799	\$ 17,648,644
Accumulated appreciation on specific purpose funds	3,911,805	3,277,397
Specific purpose funds	25,732,579	25,322,174
Annuity and unitrust agreements	5,813	7,869
Pledges receivable	<u>8,301,614</u>	<u>12,270,917</u>
Total	<u>\$ 57,664,610</u>	<u>\$ 58,527,001</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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Endowment funds (Note 13)	\$ 114,116,400	\$ 102,841,189
Annuity and unitrust agreements	4,700,856	5,750,345
Pledges receivable	<u>18,902,021</u>	<u>7,663,024</u>
Total	<u>\$ 137,719,277</u>	<u>\$ 116,254,558</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 \$11,166,799 and \$11,709,338 during fiscal years 2018 and 2017, respectively.

During the year ended June 30, 2018, the permanently restricted endowment funds was reduced by \$1,493,993 for the purpose of capital improvements. During the year ended June 30, 2017, donors agreed to permanently restrict \$19,000 in temporarily restricted net assets for the purpose of creating endowments.

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(Continued)

**NOTE 11 - TRANSACTIONS WITH THE UNIVERSITY**

The Foundation and the University regularly transfer funds between one another. The net amount of these transfers is recorded as “direct distributions to the University” in the statement of activities. For the years ended June 30, 2018 and 2017, distributions transferred to the University of \$15,060,073 and \$14,327,283, respectively, are gross of amounts received from the University of \$486,412 and \$387,790, respectively.

The University allocated certain overhead expenses to the Foundation totaling \$749,075 and \$1,203,392 in fiscal years 2018 and 2017, respectively. The Foundation reimburses the University for these amounts, which are recorded as “services performed by University personnel” in the statement of activities.

**NOTE 12 - FAIR VALUE MEASUREMENTS**

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

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

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

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

In 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, 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Foundation’s assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 12 - FAIR VALUE MEASUREMENTS** (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2018

	Balance June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
<b>Assets - Investments</b>					
Pooled investment funds managed for the Foundation	\$ 139,778,048	\$ -	\$ -	\$ -	\$ 139,778,048
Bonds	8,411,254	-	8,411,254	-	-
Common stocks	2,411,471	2,411,471	-	-	-
Exchange traded funds	215,746	215,746	-	-	-
Floater	3,920,000	-	3,920,000	-	-
Money market mutual funds	6,120,510	6,120,510	-	-	-
Mutual funds	21,909,121	21,909,121	-	-	-
Preferred stocks	61,538	61,538	-	-	-
U.S. Treasury obligations	2,494,111	-	2,494,111	-	-
Beneficial interest in real estate	335,000	-	-	335,000	-
<b>Liabilities</b>					
Annuity/unitrust agreements and refundable advances	(11,751,945)	-	-	(11,751,945)	-

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017

	Balance June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
<b>Assets - Investments</b>					
Pooled investment funds managed for the Foundation	\$ 125,377,469	\$ -	\$ -	\$ -	\$ 125,377,469
Bonds	9,627,982	-	9,627,982	-	-
Commercial paper	2,499,925	-	2,499,925	-	-
Common stocks	2,094,160	2,094,160	-	-	-
Exchange traded funds	82,876	82,876	-	-	-
Floater	3,920,000	-	3,920,000	-	-
Money market mutual funds	2,029,234	2,029,234	-	-	-
Mutual funds	23,370,147	23,370,147	-	-	-
Preferred stocks	83,126	83,126	-	-	-
U.S. Treasury obligations	1,994,948	-	1,994,948	-	-
Beneficial interest in real estate	335,000	-	-	335,000	-
<b>Liabilities</b>					
Annuity/unitrust agreements and refundable advances	(12,702,901)	-	-	(12,702,901)	-

Included in the Level 1 money market and mutual funds above is approximately \$5,500,000 and \$1,000,000 invested in a Fidelity Government Money Market Fund as of June 30, 2018 and 2017, respectively. All investment allocations are in accordance with the Foundation's investment policy. No other significant concentrations of investments exist as of June 30, 2018 or 2017.

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THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 12 - FAIR VALUE MEASUREMENTS** (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2018:

	Beneficial Interest in Real <u>Estate</u>	Annuity/Unitrust Agreements and Refundable <u>Advance</u>
Balance at June 30, 2017	\$ 335,000	\$ (12,702,901)
Total (losses) gains included in changes in net assets:		
Unrealized	-	(471,154)
Realized	-	(428,119)
Purchases	-	(204,811)
Sales	-	2,055,040
Transfers within Level 3	<u>-</u>	<u>-</u>
Balance at June 30, 2018	<u>\$ 335,000</u>	<u>\$ (11,751,945)</u>

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017:

	Beneficial Interest in Real <u>Estate</u>	Annuity/Unitrust Agreements and Refundable <u>Advance</u>
Balance at June 30, 2016	\$ 335,000	\$ (12,094,922)
Total (losses) gains included in changes in net assets:		
Unrealized	-	(1,639,768)
Realized	-	(161,041)
Purchases	-	(132,463)
Sales	-	1,325,293
Transfers within Level 3	<u>-</u>	<u>-</u>
Balance at June 30, 2017	<u>\$ 335,000</u>	<u>\$ (12,702,901)</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:

	<u>Target</u>	<u>Allowable Range</u>
Global public equity	42%	30%-60%
Hedged equity	10%	0%-15%
Absolute return	15%	0%-20%
Public real assets	13%	8%-18%
Bonds and cash	<u>13%</u>	10%-35%
Total marketable portfolio	<u>93%</u>	90%-100%
Private equity	5%	0%-10%
Private real assets	<u>2%</u>	0%-5%
Total private investments	<u>7%</u>	0%-10%

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
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June 30, 2018 and 2017

**NOTE 12 - FAIR VALUE MEASUREMENTS** (Continued)

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

	<u>Fair Value at</u>		<u>Valuation</u>	<u>Significant</u>	<u>Range</u>
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Technique</u>	<u>Unobservable</u>	<u>(Weighted</u>
				<u>Inputs Used</u>	<u>Average)</u>
Assets - beneficial interest in real estate	\$ 335,000	\$ 335,000	Market comparables	Third-party appraisal	100%
Liabilities - Annuity/unitrust agreements and refundable advance	\$ (11,751,945)	\$ (12,702,901)	IRS Pub 590 actuarial tables Discounted cash flow appraisal	Life expectancy of beneficiaries risk-free rate of return	2.6-60.1 years 1-2.5%

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, 2018 and 2017, property was valued at \$1,195,900 and \$2,250,000, respectively, using this method, and is included in Property - Net on the 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.

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

	<u>June 30, 2018</u>		<u>June 30, 2017</u>		<u>Redemption</u>	<u>Redemption</u>
	<u>Fair</u>	<u>Unfunded</u>	<u>Fair</u>	<u>Unfunded</u>	<u>Frequency</u>	<u>Notice Period</u>
	<u>Value</u>	<u>Commitments</u>	<u>Value</u>	<u>Commitments</u>		
The University of Akron Foundation Fund, LP	\$ 139,778,048	\$ -	\$ 125,377,469	\$ -	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.

(Continued)



THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 13 - DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS**

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

Interpretation of Relevant Law: The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as 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.

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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ (1,376,329)	\$ 19,712,799	\$ 114,116,399	\$ 132,452,869
Board-designated (quasi-endowment)	<u>3,759,274</u>	<u>-</u>	<u>-</u>	<u>3,759,274</u>
Total funds	<u>\$ 2,382,945</u>	<u>\$ 19,712,799</u>	<u>\$ 114,116,399</u>	<u>\$ 136,212,143</u>

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(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 1,852,481	\$ 17,648,644	\$ 102,841,187	\$ 122,342,312
Investment return:				
Investment income	21,118	1,036,941	87,285	1,145,344
Net appreciation	<u>664,139</u>	<u>5,218,032</u>	<u>745,102</u>	<u>6,627,273</u>
Total investment return	685,257	6,254,973	832,387	7,772,617
Contributions	-	2,563	10,098,452	10,101,015
Appropriation of endowment assets for expenditure	(124,967)	(3,880,258)	(310,247)	(4,315,472)
Other changes:				
Change in donor designations	(29,826)	(313,123)	654,620	311,671
Rental income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets – end of the year	<u>\$ 2,382,945</u>	<u>\$ 19,712,799</u>	<u>\$ 114,116,399</u>	<u>\$ 136,212,143</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ (1,867,685)	\$ 17,648,644	\$ 102,841,187	\$ 118,622,146
Board-designated (quasi-endowment)	<u>3,720,166</u>	<u>-</u>	<u>-</u>	<u>3,720,166</u>
Total funds	<u>\$ 1,852,481</u>	<u>\$ 17,648,644</u>	<u>\$ 102,841,187</u>	<u>\$ 122,342,312</u>

(Continued)

THE UNIVERSITY OF AKRON FOUNDATION  
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**NOTE 13 - DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS** (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – beginning of the year	\$ (1,339,210)	\$ 13,201,939	\$ 100,731,251	\$ 112,593,980
Investment return:				
Investment income	(15,548)	(295,943)	(682,176)	(993,667)
Net appreciation	<u>3,379,143</u>	<u>8,908,297</u>	<u>123,224</u>	<u>12,410,664</u>
Total investment return	3,363,595	8,612,354	(558,952)	11,416,997
Contributions	-	158,186	2,844,617	3,002,803
Appropriation of endowment assets for expenditure	(148,526)	(4,214,640)	(307,548)	(4,670,714)
Other changes:				
Change in donor designations	(23,378)	(109,195)	126,219	(6,354)
Rental income	<u>-</u>	<u>-</u>	<u>5,600</u>	<u>5,600</u>
Endowment net assets – end of the year	<u>\$ 1,852,481</u>	<u>\$ 17,648,644</u>	<u>\$ 102,841,187</u>	<u>\$ 122,342,312</u>

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,492,493 and \$1,970,570 as of June 30, 2018 and 2017, respectively (see Note 10). 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, 2018 and 2017, the Foundation released \$310,247 and \$264,556, respectively, in accordance with this policy.

During the fiscal years ended June 30, 2018 and 2017, permanently restricted fund were reduced by \$1,493,993 and increased by \$19,000, respectively, which is reflected within the statement of activities as changes in donor designation. Additionally, during the fiscal years ended June 30, 2018 and 2017, certain unitrust agreements expired and those expired agreements were reclassified to permanently restricted endowment funds in the amounts of \$2,148,613 and \$107,219, respectively.

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.

(Continued)

**NOTE 13 - 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: The Foundation investment and spending policy stipulates that 4.25 percent of a three-year rolling average of the market value of the endowment is available to spend, 1.0 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 spending policy to allow its endowment to maintain purchasing power.

**NOTE 14 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 15, 2018, the date the financial statements were available to be issued.

On July 24, 2018, the Foundation received a second installment in the amount of \$6,371,000 from the settlement of the Jean Hower Taber estate. To date, \$12,538,000 has been received with an additional \$6,012,000 expected to be received once the estate is fully settled. The proceeds fund endowments of which 66.7% will provide scholarships to the University of Akron's Audiology and Honors students and 33.3% will provide operating and capital resources for the University of Akron's Hower House Museum.

On August 14, 2018, the University of Akron paid off its obligation to the Foundation in the amount of \$4,592,000 and the Foundation then settled its outstanding term loan with PNC Bank for the same amount.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Akron Foundation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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

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(Continued)

## Purpose of this Report

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

Crowe LLP

Crowe LLP

Columbus, Ohio  
October 15, 2018



# 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, 2018