

The University of Akron Foundation and Subsidiary

**Consolidated Financial Statements
with Additional Information
June 30, 2015 and 2014**



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, 2014 through June 30, 2015. 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

January 20, 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, 2015 and 2014 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.

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, 2015 and 2014 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.

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

Emphasis of Matter

As explained in Note 14, the consolidated financial statements include investments valued at approximately \$121,350,000 (69 percent of net assets) at June 30, 2015 and \$129,396,000 (72 percent of net assets) at June 30, 2014, 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 12, 2015 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 12, 2015

The University of Akron Foundation and Subsidiary

Consolidated Statement of Financial Position

	June 30	
	2015	2014
Assets		
Cash	\$ 1,318,666	\$ 2,115,351
Accounts and notes receivable	186,390	792,282
Pledges receivable - Net of allowance and discount (Note 3)	11,198,978	8,482,067
Investments - At fair value (Note 4)	167,537,092	170,233,127
Investments held for others (Notes 4 and 5)	-	1,954,194
Property - Net (Note 6)	12,335,525	13,916,760
Net investment in direct financing lease (Note 7)	38,324	65,371
Beneficial interest in real estate (Note 8)	335,000	335,000
Total assets	\$ 192,949,975	\$ 197,894,152
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 739,141	\$ 194,373
Amounts payable to the University (Note 9)	23,034	123,590
Funds held for others (Note 5)	-	1,954,194
Deferred revenue	29,085	31,152
Line of credit (Note 10)	4,901,000	5,011,000
Annuity/Unitrust agreements and refundable advances (Notes 8 and 11)	13,252,020	11,999,996
Total liabilities	18,944,280	19,314,305
Net Assets		
Unrestricted (Note 12)	8,237,739	8,623,119
Temporarily restricted (Note 12)	60,101,203	65,622,448
Permanently restricted (Note 12)	105,666,753	104,334,280
Total net assets	174,005,695	178,579,847
Total liabilities and net assets	\$ 192,949,975	\$ 197,894,152

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	10,052,995	(9,763,688)	(289,307)	-
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 13)	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 13)	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	-	(213,455)	213,455	-
Change in Net Assets	(385,380)	(5,521,245)	1,332,473	(4,574,152)
Net Assets - Beginning of year	8,623,119	65,622,448	104,334,280	178,579,847
Net Assets - End of year	\$ 8,237,739	\$ 60,101,203	\$ 105,666,753	\$ 174,005,695

The University of Akron Foundation and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2014

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

The University of Akron Foundation and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (4,574,152)	\$ 24,663,141
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	5,509,007	(19,577,367)
Contributions restricted for long-term investment	(4,330,545)	(2,144,724)
Change in fair value of annuity/unitrust agreements	955,326	(3,444,413)
Loss on impairment of property	1,619,700	-
Loss on sale of property	34,000	-
Depreciation expense	30,381	-
Change in allowance for doubtful accounts	143,747	29,473
Change in pledge discount	(871,092)	(45,741)
Changes in operating assets and liabilities:		
Accounts and notes receivable	605,892	(471,233)
Pledges receivable	(1,989,566)	1,125,632
Accounts payable and other liabilities	442,145	132,135
Funds held for others	(1,954,194)	(525,448)
Net cash used in operating activities	(4,379,351)	(258,545)
Cash Flows from Investing Activities		
Proceeds from sale of investments	46,594,489	115,500,659
Purchase of investments	(47,479,711)	(117,819,711)
Purchase of property	(309,146)	(47,154)
Proceeds from the sale of properties	181,300	1,000
Net cash used in investing activities	(1,013,068)	(2,365,206)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	4,330,545	2,144,724
Investment subject to annuity agreements	1,911,275	-
Other financing activities:		
Net payments on line of credit	(110,000)	(180,000)
Interest and dividends restricted for annuity agreements	137,670	132,127
Net change in restricted annuity agreements	(218,169)	2,389,992
Payments of annuity obligations	(1,455,587)	(1,326,375)
Net cash provided by financing activities	4,595,734	3,160,468
Net Change in Cash	(796,685)	536,717
Cash - Beginning of year	2,115,351	1,578,634
Cash - End of year	\$ 1,318,666	\$ 2,115,351
Supplemental Cash Flow Information - Cash paid for interest	\$ 45,512	\$ 45,187

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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 and Cash Equivalents - The Foundation considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2015 and 2014, approximately \$0 and \$390,000, respectively, of cash equivalents held as part of the investment pool are classified as investments and are excluded from cash equivalents for the purpose of the consolidated statement of cash flows.

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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 \$867,000 and \$1,821,000 for the years ended June 30, 2015 and 2014, respectively, on the consolidated statement of activities.

At June 30, 2014, the Foundation had remaining capital commitments for investment in a private equity fund of approximately \$1,495,000. There are no remaining capital commitments for investment at June 30, 2015.

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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. The impairment event is the result of a sales contract entered into during fiscal 2016. 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, 2014.

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, 2015 and 2014

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, 2015 and 2014, total fundraising costs were approximately \$321,000 and \$224,000, 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, 2015 and 2014

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 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, 2015 and 2014 is \$13,252,020 and \$11,999,996, respectively.

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

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 12, 2015, which is the date the consolidated financial statements were available to be issued.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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, 2015 and 2014, the future expected cash flows from pledges receivable have been discounted using a discount rate of 1.63 percent and 1.62 percent, respectively.

Pledges receivable at June 30, 2015 and 2014 are expected to be realized in the following periods:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 3,236,089	\$ 1,861,176
One to five years	5,728,642	4,324,926
More than five years	<u>5,372,950</u>	<u>6,162,013</u>
Total	14,337,681	12,348,115
Less amount estimated to be uncollectible	(995,038)	(851,291)
Less unamortized discount	<u>(2,143,665)</u>	<u>(3,014,757)</u>
Total pledges receivable - Net	<u>\$ 11,198,978</u>	<u>\$ 8,482,067</u>

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

As of June 30, 2015, the Foundation has \$27,964,375 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable or recognized as revenue because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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, 2015 and 2014 were as follows:

	2015	2014
Pooled investment funds managed for the Foundation:		
BlackRock Vesey Street IV Private Equity	\$ -	\$ 6,170,840
Cash equivalents	-	389,358
The University of Akron Foundation Fund, LP	<u>121,349,682</u>	<u>123,208,006</u>
Total pooled investment funds	121,349,682	129,768,204
Bonds	9,845,015	10,121,531
Commercial paper	2,499,759	2,300,000
Common stocks	1,858,172	2,109,704
Exchange traded funds	108,418	93,668
Floaters	4,560,000	2,900,955
Insurance policies - Cash surrender value	78,760	112,467
Money market funds	3,764,305	2,214,459
Mutual funds	23,137,539	22,213,195
Preferred stocks	80,638	81,317
Private equities	-	17,413
U.S. Treasury obligations	<u>254,804</u>	<u>254,408</u>
Total fair value	<u>\$ 167,537,092</u>	<u>\$ 172,187,321</u>
Total cost	<u>\$ 163,655,863</u>	<u>\$ 158,648,165</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 5 - Investments Held for Others

The Foundation had entered into an agreement to serve as the custodian for a non-profit Ohio corporation for educational, scientific, and charitable purposes. As part of this agreement, the Foundation had served as the custodian until a new 501(c)(3) organization was established by the corporation. Members of the corporation include the University of Akron and other unrelated entities. As custodian, the Foundation received grant monies to invest and disburse. The Foundation had no discretion on use of the funds. The grant funds were segregated from the Foundation's investment portfolio and invested in accordance with the direction of the member institutions of the corporation.

The Foundation had recorded investments held for the corporation and a corresponding liability for these funds of approximately \$1,954,000 as of June 30, 2014 related to this agreement. There were no investments held for others as of June 30, 2015.

Note 6 - Property

Property consists of the following at June 30, 2015 and 2014:

	Non- depreciable	Depreciable	Total	
			2015	2014
Avery Place Property	\$ 12,017	\$ -	\$ 12,017	\$ 12,017
Brown Street Property	81,000	-	81,000	81,000
Copley Road Property	175,000	-	175,000	200,000
Covington Road Property	-	-	-	185,000
Dale Street Property	27,460	82,540	110,000	110,000
East Exchange Street Property Lot A	401,385	-	401,385	401,385
East Exchange Street Property Lot B	675,195	-	675,195	675,195
East Exchange Street Property Lot C	1,800,000	-	1,800,000	1,800,000
Fir Hill Street Property	418,833	-	418,833	418,833
Harvey Court Property	47,182	-	47,182	41,057
Heritage Centre	3,000,000	-	3,000,000	4,650,000
Miller Parkway Land	155,825	-	155,825	155,825
N Pershing Avenue Property	91,985	-	91,985	80,000
Treeside Drive Property	16,250	48,750	65,000	65,000
Union Street Property	126,460	-	126,460	126,460
University Village Property	4,922,887	-	4,922,887	4,631,851
Wheeler Street Property A	176,045	-	176,045	176,045
Wheeler Street Property B	108,743	-	108,743	108,743
Less accumulated depreciation	-	(32,032)	(32,032)	(1,651)
Total	<u>\$ 12,236,267</u>	<u>\$ 99,258</u>	<u>\$ 12,335,525</u>	<u>\$ 13,916,760</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 6 - Property (Continued)

During the year ended June 30, 2015, property valued at \$215,300 was sold for \$181,300. A loss on sale of property in the amount of \$34,000 was debited to operations for fiscal year 2015.

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 2016. 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, 2014.

Depreciation expense on rented properties totaled \$30,381 and \$0 for the years ended June 30, 2015 and 2014, respectively.

Note 7 - Investment in Direct Financing Lease

On December 1, 2011, the Foundation began leasing property to the University under a direct financing lease. The agreement calls for 60 monthly payments of \$2,254 which consist of both principal and interest imputed at 2.06 percent per annum. As of June 30, 2015 and 2014, the present value of future payments to be received totaled approximately \$38,000 and \$65,000, respectively, as presented on the consolidated statement of financial position.

Note 8 - Beneficial Interest in Real Estate

The Foundation has the irrevocable right to receive ownership of certain real estate. The donor has retained the right to use the real estate for the donor's lifetime. The carrying value of the real estate (based upon an independent appraisal) is reported as a beneficial interest in real estate and as temporarily restricted net assets. Based on the agreement, the Foundation is also required to pay periodic fixed payments to the donor during his or her lifetime. The Foundation recorded the present value of this annuity payable using the applicable American Council on Gift Annuities (ACGA) tables (discount rates used at June 30, 2015 and 2014 were 2.00 percent and 2.20 percent, respectively), based on the term of the agreement, as a liability of \$112,387 and \$115,603 at June 30, 2015 and 2014, respectively.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 9 - Amounts Payable to the University

The Foundation may at times receive gifts on behalf of the University. At June 30, 2015 and 2014, the Foundation owed the University \$23,034 and \$123,590, respectively, for such gifts received. During the years ended June 30, 2015 and 2014, the Foundation recorded \$2,494,996 and \$1,871,374, respectively, of contribution revenue for amounts received on behalf of the University.

Note 10 - Line of Credit

In May 2012, the Foundation obtained a \$10,000,000 revolving line of credit with Fifth Third Bank. Interest on the revolver is at a fluctuating rate of the rounded one-month LIBOR plus 0.65 percent per annum. At June 30, 2015 and 2014, the interest rate on the revolver was 0.90 percent. At June 30, 2015 and 2014, there was \$4,901,000 and \$5,011,000 outstanding under this agreement, respectively.

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

Note 11 - Annuity and Unitrust Agreements

The Foundation has entered into charitable gift annuity agreements which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then the unrestricted assets of the Foundation will be utilized to fund future payments.

The Foundation has also entered into unitrust, annuity trust, and pooled income agreements which include provisions for the Foundation to pay beneficiaries' periodic payments until either the assets of the trust have been exhausted or until death of the beneficiaries. Upon the death of the beneficiaries, any remaining property in the trust or pooled income will be available to the Foundation in accordance with the agreements.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 11 - Annuity and Unitrust Agreements (Continued)

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, 2015 and 2014 were 2.00 percent and 2.20 percent, respectively) based on the term of the agreement, as a liability. The balance of the gift is recorded as unrestricted, temporarily restricted, or permanently restricted contributions, as appropriate.

The Foundation's payments to beneficiaries under the annuity and unitrust agreements reduce the annuity liability. Adjustments to the annuity liability are made to report amortization of the discount and record changes in the life expectancy of the beneficiary. These adjustments, as well as the return on the underlying investment assets (fair value of \$19,654,005 and \$18,893,404 at June 30, 2015 and 2014, respectively), are recognized in the consolidated statement of activities as changes in the value of annuity and unitrust agreements.

Note 12 - Net Assets

Unrestricted net assets at June 30, 2015 and 2014 are as follows:

	2015	2014
Current operations	\$ 4,466,888	\$ 3,744,665
Board-designated	5,652,312	5,847,477
Underwater endowment adjustment (Note 15)	(1,881,461)	(969,023)
Total	<u>\$ 8,237,739</u>	<u>\$ 8,623,119</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, 2015 and 2014 are as follows:

	2015	2014
Accumulated appreciation on true endowments	\$ 27,880,086	\$ 31,311,958
Accumulated (depreciation) appreciation on specific purpose funds	(2,871,665)	3,030,772
Specific purpose funds	25,265,413	22,824,746
Annuity and unitrust agreements	13,420	23,731
Pledges receivable	9,813,949	8,431,241
Total	<u>\$ 60,101,203</u>	<u>\$ 65,622,448</u>

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 12 - Net Assets (Continued)

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, 2015 and 2014 are as follows:

	2015	2014
Endowment funds (Note 15)	\$ 97,749,457	\$ 97,220,647
Annuity and unitrust agreements	6,532,270	7,005,327
Pledges receivable	1,385,026	108,306
Total	<u>\$ 105,666,753</u>	<u>\$ 104,334,280</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 \$10,052,995 and \$6,328,783 during fiscal years 2015 and 2014, respectively.

During the years ended June 30, 2015 and 2014, donors agreed to permanently restrict \$213,455 in temporarily restricted net assets for the purpose of creating endowments. During the year ended June 30, 2014, donors agreed to release \$28,638 in permanently restricted net assets for the purpose of paying back deficiencies resulting from unfavorable market fluctuations. See Note 15 for additional information.

Note 13 - Transactions with the University

The Foundation and the University regularly transfer funds between one another. The net amount of these transfers is recorded as “direct distributions to the University” in the consolidated statement of activities. For the years ended June 30, 2015 and 2014, distributions transferred to the University of \$12,879,432 and \$8,764,241, respectively, are gross of amounts received from the University of \$357,251 and \$483,794, respectively.

The University allocated certain overhead expenses to the Foundation totaling \$489,165 and \$486,840 in fiscal years 2015 and 2014, respectively. The Foundation reimburses the University for these amounts, which are recorded as “services performed by University personnel” in the consolidated statement of activities.

Note 14 - Fair Value Measurements

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

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, 2015 and 2014, there were no transfers between levels of the fair value hierarchy.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and 2014 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, 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)
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)

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

	Balance at June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Pooled investment funds				
managed for the Foundation	\$ 129,378,846	\$ -	\$ -	\$ 129,378,846
less cash equivalents (Note 2)				
Bonds	10,121,531	-	10,121,531	-
Commercial paper	2,300,000	-	2,300,000	-
Common stocks	2,109,704	2,109,704	-	-
Exchange traded funds	93,668	93,668	-	-
Floater	2,900,955	-	2,900,955	-
Money market mutual funds	2,214,459	2,214,459	-	-
Mutual funds	22,213,195	22,213,195	-	-
Preferred stocks	81,317	81,317	-	-
Private equities	17,413	-	-	17,413
U.S. Treasury obligations	254,408	254,408	-	-
Beneficial interest in real estate	335,000	-	-	335,000
Liabilities				
Annuity/unitrust agreements and refundable advances	(11,999,996)	-	-	(11,999,996)

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

Included in the Level I money market and mutual funds above is approximately \$2,800,000 and \$1,500,000 invested in a PNC Fidelity Prime Money Market Fund as of June 30, 2015 and 2014, respectively. All investment allocations are in accordance with the Foundation's investment policy as described on page 23. No other significant concentrations of investments exist as of June 30, 2015 or 2014.

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

	Hedge Funds	Private Equity Funds	Single Investor Fund	Beneficial Interest in Real Estate	Annuity/Unitrust Agreements and Refundable Advances
Balance at June 30, 2014	\$ -	\$ 6,188,253	\$ 123,208,006	\$ 335,000	\$ (11,999,996)
Total (losses) gains included in changes in net assets:					
Unrealized	-	-	(7,087,279)	-	(407,141)
Realized	-	10,140	1,736,034	-	(708,500)
Purchases	-	-	2,087,006	-	(1,641,630)
Sales	-	(212,478)	(4,580,000)	-	1,505,247
Transfers within Level 3	-	(5,985,915)	5,985,915	-	-
Balance at June 30, 2015	\$ -	\$ -	\$ 121,349,682	\$ 335,000	\$ (13,252,020)

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

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

Investment Policies

The Foundation has adopted investment policies in accordance with the objectives of its investment committee. The strategic allocation policy for all investments is as follows:

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

Measurement of Level 3 Assets and Liabilities

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

Unobservable Inputs Used to Measure Level 3 Assets and Liabilities

	Fair Value at		Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
	June 30, 2015	June 30, 2014			
Assets - Beneficial interest in real estate	\$ 335,000	\$ 335,000	Market comparables	Third-party appraisal	100%
Liabilities - Annuity/unitrust agreements and refundable advances	\$ (13,252,020)	\$ (11,999,996)	IRS Pub 590 actuarial tables Discounted cash flow	Life expectancy of beneficiaries Risk-free rate of return	2.8 - 60.1 years 1 - 2%

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

Investments categorized as Level 3 assets at June 30, 2015 and 2014 consist primarily of hedge funds, private equity funds, and the Foundation Fund. The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements of investments. These processes include regular meetings with the Foundation's investment committee for calibration and review of Level 3 investment monthly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market. The Foundation utilizes a third-party investment manager to monitor, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

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

The Foundation measures property on a nonrecurring basis and records an impairment charge to the extent the carrying value of the asset is greater than fair value. The fair value of the property is based primarily on Level 3 inputs including a sales comparison method using the property's competitive market area. 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 6 for further information). This balance is net of an impairment charge of \$1,619,700 which was recognized on the property during the year ended June 30, 2015 and is included in the consolidated statement of activities. There were no impairment charges for the year ended June 30, 2014.

Investments in Entities that Calculate Net Asset Value per Share

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

Certain investments measured at net asset value per share (or its equivalent) may be classified within Level 2 of the fair value hierarchy if the investment can be redeemed at or within five business days of the measurement date. If the investment holdings cannot be redeemed at or within this time frame, due to redemption restrictions or other factors, then the investment is classified within Level 3 of the fair value hierarchy.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 14 - Fair Value Measurements (Continued)

At June 30, 2015 and 2014, all of the Foundation's investments measured at net asset value per share (or its equivalent) are classified within Level 3 of the fair value hierarchy.

At June 30, 2015 and 2014, the fair value, net of cash equivalents, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2015		June 30, 2014		Redemption Frequency	Redemption Notice Period
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments		
BlackRock Vesey Street Fund IV	\$ -	\$ -	\$ 6,170,840	\$ -	None	N/A
CommonFund Private Equity Partners II	-	-	17,413	-	None	N/A
The University of Akron Foundation Fund, LP	<u>121,349,682</u>	-	<u>123,208,006</u>	-	Quarterly	At least 45 days
Total	<u>\$ 121,349,682</u>	<u>\$ -</u>	<u>\$ 129,396,259</u>	<u>\$ -</u>		

The BlackRock Vesey Street Fund IV's objective is to seek superior capital appreciation through investments in private equity, while reducing risk through portfolio construction and diversification.

CommonFund Private Equity Partners II invests primarily in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities, and other obligations of distressed businesses and financially troubled companies.

The 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.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 15 - Donor-restricted and Board-designated Endowments

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

Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 15 - 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>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, 2015 and 2014

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2014

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

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

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

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,881,461 and \$969,023 as of June 30, 2015 and 2014, respectively (see Note 12). These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

During the years ended June 30, 2015 and 2014, donors released a portion of a permanently restricted endowment fund. The release of \$213,455 and \$28,638, respectively, is shown on the consolidated statement of activities as changes in donor designation.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University of Akron Foundation and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

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

Spending Policy and Investment Objectives Related to Spending Policy

During fiscal years 2015 and 2014, the Foundation investment and spending policy stipulates that 4.5 percent of a three-year rolling average of the market value of the endowment is available to spend, 1.5 percent of the three-year moving average of the market value of the endowment is available for support of the Foundation's administrative expenses, and the remaining income is to be reinvested. If an investment loss is incurred, the loss is allocated entirely as currently expendable. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Akron Foundation and Subsidiary (the "Foundation"), a discretely presented component unit of the University of Akron, which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated October 12, 2015.

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Plante & Moran, PLLC

October 12, 2015

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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
FEBRUARY 2, 2016