The University of Akron Foundation

Financial Statements
June 30, 2003 and 2002

Auditor of State
Betty Montgomery

Board of Directors
University of Akron Foundation
302 Buchtel Common
Akron, Ohio 44325-6205

We have reviewed the Independent Auditor's Report of the University of Akron Foundation, Summit County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2002 through June 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 12, 2003

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The University of Akron Foundation

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PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
The University of Akron Foundation:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the University of Akron Foundation (the "Foundation") at June 30, 2003, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Foundation as of June 30, 2002 and for the year then ended were audited by other auditors whose report dated August 17, 2002 expressed an unqualified opinion on those statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2003 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

August 21, 2003

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

To the Board of Directors of
The University of Akron Foundation:

We have audited the financial statements of the University of Akron Foundation (the "Foundation"), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Foundation's Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

August 21, 2003

The University of Akron Foundation

Statements of Financial Position
June 30, 2003 and 2002

ASSETS	2003	2002
Cash	$ 34,165	$ 24,938
Accounts and notes receivable	58,223	134,891
Pledges receivable, net of allowance and discount	3,950,064	3,403,475
Investments, at market value	106,635,213	109,408,744
Beneficial interest in charitable lead trusts	710,349	892,571
Beneficial interest in real estate	1,700,000	1,700,000
Property, net of accumulated depreciation of $160,426 and $157,217	335,055	338,264
Total assets	$ 113,423,069	$ 115,902,883
LIABILITIES AND NET ASSETS		
Accounts payable	$ 10,225	$ 394
Contributions payable to the University	340,621	39,344
Deferred revenue	-	100,000
Refundable advances	94,926	95,816
Actuarial liability for annuity/unitrust agreements	10,803,710	10,324,910
Other liabilities	37,128	31,204
Total liabilities	11,286,610	10,591,668
Net assets:		
Unrestricted	6,069,598	6,193,394
Temporarily restricted	33,530,832	38,308,717
Permanently restricted	62,536,029	60,809,104
Total net assets	102,136,459	105,311,215
Total liabilities and net assets	$ 113,423,069	$ 115,902,883

The accompanying notes are an integral part of these financial statements.

The University of Akron Foundation

Statements of Activities
For the Years Ended June 30, 2003 and 2002

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenues and other additions:								
Contributions	$ 447,112	$ 143,452	$ 4,563,450	$ 3,911,018	$ 3,611,420	$ 4,454,497	$ 8,621,982	$ 8,508,967
Net depreciation in the market value of investments	(106,919)	(942,956)	(1,168,969)	(13,346,532)	(156,409)	(1,166,106)	(1,432,297)	(15,455,594)
Change in the market value of split-interest agreements	(588)	(1,515)	(17,564)	(76,095)	(1,283,090)	(2,846,793)	(1,301,242)	(2,924,403)
Change in the market value of beneficial interest in perpetual trusts	-	-	(92,017)	(184,728)	32,096	35,128	(59,921)	(149,600)
Dividend and interest income	1,344,826	1,662,830	653,778	716,435	(632)	1,957	1,997,972	2,381,222
Other income	-	325	89,793	83,362	-	-	89,793	83,687
Total revenues and other additions	1,684,431	862,136	4,028,471	(8,896,540)	2,203,385	478,683	7,916,287	(7,555,721)
Release of restrictions	9,282,816	7,910,169	(8,778,776)	(7,583,700)	(504,040)	(326,469)	-	-
Total revenues and other additions after release of restrictions	10,967,247	8,772,305	(4,750,305)	(16,480,240)	1,699,345	152,214	7,916,287	(7,555,721)
Expenses:								
Distributions to or for The University of Akron:								
Direct distributions to the University	9,967,279	9,766,704	-	-	-	-	9,967,279	9,766,704
Distributions on behalf of the University	393,490	495,656	-	-	-	-	393,490	495,656
Administration of the Foundation:								
Services performed by University personnel	571,123	569,491	-	-	-	-	571,123	569,491
Professional fees	71,129	110,241	-	-	-	-	71,129	110,241
Other administrative expenses	65,468	73,721	-	-	-	-	65,468	73,721
Depreciation	3,209	6,417	-	-	-	-	3,209	6,417
Office expense	11,914	12,898	-	-	-	-	11,914	12,898
Insurance and taxes	7,431	7,233	-	-	-	-	7,431	7,233
Litigation settlement	-	144,750	-	-	-	-	-	144,750
Total expenses	11,091,043	11,187,111	-	-	-	-	11,091,043	11,187,111
Change in donor designation	-	-	(27,580)	(175,367)	27,580	175,367	-	-
(Decrease) increase in net assets	(123,796)	(2,414,806)	(4,777,885)	(16,655,607)	1,726,925	327,581	(3,174,756)	(18,742,832)
Net assets, beginning of year	6,193,394	8,608,200	38,308,717	54,964,324	60,809,104	60,481,523	105,311,215	124,054,047
Net assets, end of year	$ 6,069,598	$ 6,193,394	$ 33,530,832	$ 38,308,717	$ 62,536,029	$ 60,809,104	$ 102,136,459	$ 105,311,215

The accompanying notes are an integral part of these financial statements.

The University of Akron Foundation

Statements of Cash Flow
For the Years Ended June 30, 2003 and 2002

	2003	2002
Operating activities:		
Decrease in net assets	$ (3,174,756)	$ (18,742,832)
Adjustment to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,209	6,417
Net depreciation in the market value of investments	1,432,297	15,455,594
Change in market value of split interest agreements	1,301,242	2,924,403
Changes in operating assets and liabilities:		
Accounts receivable, net	76,668	274,281
Pledges receivable, net	(546,589)	(713,402)
Beneficial interest in charitable lead trusts	182,222	294,374
Accounts payable and other liabilities	216,142	(397,703)
Actuarial liability for annuity/unitrust agreements	478,800	933,324
Net cash (used in) provided by operating activities	(30,765)	34,456
Investing activities:		
Change in investments	39,992	(23,819)
Net cash (used in) provided by investing activities	39,992	(23,819)
Net increase in cash	9,227	10,637
Cash, beginning of year	24,938	14,301
Cash, end of year	$ 34,165	$ 24,938

The accompanying notes are an integral part of these financial statements.

The University of Akron Foundation

Notes to the Financial Statements

1. Organization

The University of Akron Foundation (the "Foundation") 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, including:

- Unrestricted support to the University
- Support for the Crusade for Scholars Program
- Support for the Center for Economic Education
- Support for the Intercollegiate Athletic Program
- Support for Restricted Purposes

2. 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 unrestricted assets and uncollected pledges.

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. This category includes true endowment earnings, quasi-endowment principal and earnings, a property annuity and property assets.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal.

2. Significant Accounting Policies, Continued

Revenues and Other Additions
Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. 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 statements of activities.

Income Taxes
The Foundation is an Ohio nonprofit organization, tax-exempt under Section 501(c)(3) of the Internal Revenue Code and exempt from federal, state and local income tax on related income.

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

Cash and Cash Equivalents
The Foundation considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments
Investments in equity securities with readily determinable market values and all investments in debt securities are measured at market value. The market value of investments are based on quoted market prices. Donated investments including donated property, are recorded as contributions at market value on the date received. Realized gains (losses) on investments are the difference between the proceeds received and the average cost of investments sold. Net appreciation in the market value of investments (including realized gains (losses), unrealized gains (losses) and dividends and interest) is included in revenues and other additions, gains and other income of unrestricted net assets, unless the net appreciation or investment income is restricted by the donor.

Property
Property is recorded at cost at the date of acquisition or estimated market value at the date of donation. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

Pledges Receivable
The Foundation records pledges and unconditional promises to give as receivables and revenue and other additions 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 pledges are made. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

2. Significant Accounting Policies, Continued

Deferred Revenue
The Chair Emeritus of the Board of Directors advanced the Foundation $100,000 as of June 30, 2002 in connection with the construction of an amphitheater for the University. The two-year loan was paid during 2003.

Market Value of Financial Instruments
The carrying values of cash and cash equivalents, accounts receivable and accounts payable and other liabilities are reasonable estimates of market value due to the short-term nature of these financial instruments. Investments, pledges receivable and annuity payment liability are reported at market value.

Credit Risk Concentrations
Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains cash 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 are generally limited due to the dispersion of these balances over a wide base of donors.

Expenses

Expenses are reported as decreases in unrestricted net assets. 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 fund raising and management and general activities.

3. Investments

Investments are stated at market value. Fluctuations in market value, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments as of June 30, 2003 and 2002, consisted of:

	2003	2002
Pooled investment funds managed for the Foundation:		
Oak Associates	$ 13,114,009	$ 14,038,229
Trusco	12,481,950	8,412,648
The Common Fund	421,717	541,109
Advantage Select	3,629,263	2,477,500
Westwood Management Corporation	12,566,370	12,360,591
Dreman Value Management	11,514,763	10,353,955
Sterling Capital	835,862	2,664,754
Systematic Financial	5,309,654	5,534,717
Wasatch Advisors	6,558,868	5,481,815
Lazard Freres	7,790,142	8,359,485
PIMCO	11,064,028	14,658,612
Metropolitan West	11,274,720	13,726,957
Total pooled investment funds	$ 96,561,346	$ 98,610,372
Mutual funds	1,658,417	1,814,644
U.S. Treasury obligations	154,260	147,687
Bonds	3,826,443	3,880,475
Commercial paper	3,149,000	1,775,000
Common stocks	771,025	982,878
Preferred stocks	30,432	29,520
Money market funds	257,479	257,436
Insurance policies, cash surrender value	226,811	210,732
Real estate held for sale	-	1,700,000
Total market value	$ 106,635,213	$ 109,408,744
Total cost	$ 111,749,089	$ 119,900,455

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. Approximately 75% and 69% of the pooled investment funds were invested in common and preferred stocks in a variety of industries and 25% and 31% were invested in fixed income securities at June 30, 2003 and 2002, respectively.

The Foundation appropriates a limited portion of the appreciation on investments held by the pooled endowments for distribution to the University and other funds within the Foundation. Actual distributions from endowments are based on a spending policy set by the Foundation's Board of Directors. Under this spending policy, appropriated income is calculated at 5% of the average market value of endowment investments for the prior three years.

3. Investments, Continued

As a result of market declines, the market value of certain donor-restricted endowments is less than the historical cost value of such funds by $3,312,224 at June 30, 2003, and $2,424,409 at June 30, 2002. These unrealized losses have been recorded as reductions in temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation have not been met prior to the loss.

The $1,700,000 in real estate held for sale at June 30, 2002 was contributed property with an original value of $2,000,000. This real estate, which was sold in September 2002, is separate from the beneficial interest in real estate of $1,700,000 held in assets at June 30, 2003.

4. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value. The future expected cash flows from pledges receivable have been discounted using a discount rate of 4.19%.

Pledges receivable at June 30, 2003 and 2002 are expected to be realized in the following periods.

	2003	**2002**
Less than one year	$ 2,209,483	1,473,938
One to five years	2,341,893	2,521,028
More than five years	2,250	-
	4,553,626	3,994,966
Less amount estimated to be uncollectible	(438,896)	(378,164)
Less unamortized discount	(164,666)	(213,327)
Total pledges receivable, net	$ 3,950,064	$ 3,403,475

As of June 30, 2003, the Foundation has approximately $14,285,395 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.

5. Contributions Payable to the University

The Foundation may receive gifts on behalf of the University. The Foundation records a contribution payable to the University for such gifts. In 2003 and 2002, the Foundation recorded approximately $1,272,704 and $1,051,000, respectively, of contribution revenue for amounts received on behalf of the University.

6. Split-Interest 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 death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the market value of assets donated as of the date of the gift and by recording the actuarial present value of the annuities payable using the applicable IRS tables (discount rates used at June 30, 2003 and 2002 were 3.8% and 6%, respectively) based on the term of the agreement, as a liability. The balance of the gift is recorded as either unrestricted, temporarily restricted, or permanently restricted contributions, as appropriate.

The Foundation’s payments to beneficiaries under the split-interest 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 (market value of $18,791,936 and $19,673,404 at June 30, 2003 and 2002, respectively), are recognized in the statement of activities as changes in the value of split-interest agreements.

7. Beneficial Interest in Lead Trusts

The Foundation has irrevocable rights to receive a portion of the specified cash flows from certain charitable lead trusts. The recorded beneficial interest in the lead trusts is based on the present value of the future cash flows to the Foundation using a discount rate of 4.89%. Due to the time restriction of the Foundation’s access to the assets held in these trusts, the Foundation’s interests in the lead trusts are recorded as temporarily and permanently restricted net assets as applicable. Adjustments to the carrying value of the trusts and income distributions received are recognized as increases or decreases in temporarily and permanently restricted net assets.

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 the use of the real estate for the donor’s lifetime. The market 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. Also, based on the agreement, the Foundation is required to pay periodic fixed payments to the donor during his lifetime. The Foundation recorded the present value of this annuity payable using the applicable IRS tables (discount rates used at June 30, 2003 and 2002 were 3.8% and 6% respectively), based on the term of the agreement, as a liability.

9. University Services

The University allocated certain overhead expenses to the Foundation totalling $571,123 and $569,491 in fiscal 2003 and 2002, respectively. These amounts are recorded as "Services performed by University personnel" in the statements of activities.

10. Revocable Trust

In February 1987, the Foundation was named beneficiary of a revocable trust which has investments totalling $94,926 and $95,816 at June 30, 2003 and 2002, respectively (on a market value basis). The market value of the trust's assets have been included in the statements of financial position as investment and refundable advances. All income of the trust is paid to the Foundation and recognized when received.

11. Net Assets

Unrestricted net assets at June 30, 2003 and 2002 are as follows:

	2003	2002
Current operations	$ 647,443	$ 350,056
Board designated	5,417,893	5,838,488
Annuity funds	4,262	4,850
	$ 6,069,598	$ 6,193,394

Temporarily 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, 2003 and 2002 are as follows:

	2003	2002
Accumulated appreciation on endowment investments in accordance with the spending policy	$ 21,653,337	$ 26,955,889
Specific purpose funds	8,369,371	8,179,349
Split-interest agreements	452,430	613,479
Pledges receivable	3,055,694	2,560,000
	$ 33,530,832	$ 38,308,717

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, 2003 and 2002 are as follows:

	2003	2002
Endowment funds	$ 54,110,126	$ 51,235,464
Split-interest agreements	7,531,534	8,730,166
Pledges receivable	894,369	843,474
	$ 62,536,029	$ 60,809,104

During fiscal 2003, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships and development of the University in the amount of $9,282,816 ($7,910,169 during fiscal 2002).

Auditor of State
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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
NOVEMBER 25, 2003