The University of Akron Foundation

Financial Report

June 30, 2012 and 2011

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the University of Akron Foundation, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. 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.

Dave Yost
Auditor of State

January 14, 2013

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The University of Akron Foundation

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Independent Auditor's Report

To the Board of Directors
The University of Akron Foundation

We have audited the accompanying statement of financial position of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Foundation as of June 30, 2012 and 2011 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 14, the financial statements include investments valued at approximately $19,993,000 (14 percent of net assets) at June 30, 2012 and at $20,747,000 (14 percent of net assets) at June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012 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 grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on pages 31 and 32 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 8, 2012

The University of Akron Foundation

Statement of Financial Position

	June 30 2012	June 30 2011
Assets		
Cash	$ 1,610,531	$ 688,527
Accounts and notes receivable	928,003	467,813
Pledges receivable - Net of allowance and discount (Note 3)	11,935,118	12,504,439
Related party note receivable (Note 10)	-	5,007,617
Investments - At fair value (Note 4)	134,798,783	135,652,811
Investments held for others (Notes 4 and 5)	2,681,897	4,189,558
Property - Net (Note 6)	8,403,102	7,727,045
Net investment in direct financing lease (Note 7)	117,211	-
Beneficial interest in real estate (Note 8)	335,000	335,000
Total assets	**$ 160,809,645**	**$ 166,572,810**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 536,798	$ 15,681
Contributions payable to the University (Note 9)	237,243	830,467
Deposit - Austen BioInnovation Institute in Akron (Note 5)	2,562,247	3,409,789
Deposit - University Park Alliance (Note 5)	100,710	779,769
Deposit - Akron Civility Project (Note 5)	18,940	-
Deferred revenue	34,377	30,000
Refundable advances	84,942	88,805
Line of credit (Note 10)	-	5,000,000
Actuarial liability for annuity/unitrust agreements (Notes 8 and 11)	14,446,728	12,033,539
Total liabilities	18,021,985	22,188,050
Net Assets		
Unrestricted (Note 12)	709,800	2,768,718
Temporarily restricted (Note 12)	46,575,793	50,611,189
Permanently restricted (Note 12)	95,502,067	91,004,853
Total net assets	142,787,660	144,384,760
Total liabilities and net assets	**$ 160,809,645**	**$ 166,572,810**

See Notes to Financial Statements.

The University of Akron Foundation

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Additions (Reductions)				
Contributions	$ 45,187	$ 5,355,563	$ 7,016,670	$ 12,417,420
Net change in the fair value of investments	(2,095,935)	(2,027,068)	(46,784)	(4,169,787)
Change in the fair value of split-interest agreements	(131,233)	(1,208)	(1,264,739)	(1,397,180)
Loss on sale of property	-	-	(359,000)	(359,000)
Dividend and interest income	1,612,093	(148,775)	1,681	1,464,999
Other income	1,665	71,480	11,154	84,299
Total revenues and other additions - Net	(568,223)	3,249,992	5,358,982	8,040,751
Release of Restrictions	8,147,156	(7,923,601)	(223,555)	-
Total revenues and other additions and release of restrictions	7,578,933	(4,673,609)	5,135,427	8,040,751
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 13)	7,894,774	-	-	7,894,774
Distributions on behalf of the University	1,002,772	-	-	1,002,772
Administration of the Foundation:				
Services performed by University personnel (Note 13)	418,879	-	-	418,879
Professional fees	128,404	-	-	128,404
Office expenses	21,871	-	-	21,871
Other expenses	171,151	-	-	171,151
Total expenses	9,637,851	-	-	9,637,851
Change in Donor Designation	-	638,213	(638,213)	-
Change in Net Assets	(2,058,918)	(4,035,396)	4,497,214	(1,597,100)
Net Assets - Beginning of year	2,768,718	50,611,189	91,004,853	144,384,760
Net Assets - End of year	**$ 709,800**	**$ 46,575,793**	**$ 95,502,067**	**$ 142,787,660**

See Notes to Financial Statements.

The University of Akron Foundation

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Additions (Reductions)				
Contributions	$ 272,706	$ 6,167,465	$ 4,274,618	$ 10,714,789
Net change in the fair value of investments	6,991,491	9,357,850	657,201	17,006,542
Change in the fair value of split-interest agreements	30,548	929	1,948,815	1,980,292
Impairment loss	-	-	(615,000)	(615,000)
Dividend and interest income	1,574,767	396,485	8,495	1,979,747
Other income	-	91,934	11,185	103,119
Total revenues and other additions - Net	8,869,512	16,014,663	6,285,314	31,169,489
Release of Restrictions	13,403,380	(13,182,879)	(220,501)	-
Total revenues and other additions and release of restrictions	22,272,892	2,831,784	6,064,813	31,169,489
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University (Note 13)	13,414,295	-	-	13,414,295
Distributions on behalf of the University	642,279	-	-	642,279
Administration of the Foundation:				
Services performed by University personnel (Note 13)	403,737	-	-	403,737
Professional fees	163,729	-	-	163,729
Office expenses	16,875	-	-	16,875
Other expenses	204,510	20,994	-	225,504
		-	-	-
Total expenses	14,845,425	20,994	-	14,866,419
Change in Donor Designation	-	57,628	(57,628)	-
Change in Net Assets	7,427,467	2,868,418	6,007,185	16,303,070
Net Assets (Deficit) - Beginning of year	(4,658,749)	47,742,771	84,997,668	128,081,690
Net Assets - End of year	**$ 2,768,718**	**$ 50,611,189**	**$ 91,004,853**	**$ 144,384,760**

The University of Akron Foundation

Statement of Cash Flows

	Year Ended June 30 2012	Year Ended June 30 2011
Cash Flows from Operating Activities		
Change in net assets	$ (1,597,100)	$ 16,303,070
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net change in the fair value of investments	4,169,787	(17,006,542)
Contributions restricted for long-term investment	(7,016,670)	(4,274,618)
Contributions of property	(1,945,000)	(425,000)
Change in fair value of split-interest agreements	1,397,180	(1,980,292)
Change in fair value of refundable advances	(3,863)	12,714
Loss on impairment of property	-	615,000
Loss on sale of property	359,000	-
Forgiveness of debt	-	(1,500,000)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(460,190)	(1,798)
Pledges receivable - Net	569,321	4,314,491
Beneficial interest in real estate	-	(335,000)
Deposit - Akron Cooperative	-	(4,803,684)
Deposit - Austen BioInnovation Institute in Akron	(847,542)	(10,000)
Deposit - University Park Alliance	(679,059)	779,769
Deposit - Akron Civility Project	18,940	-
Accounts payable and other liabilities	(67,730)	667,110
Net cash used in operating activities	(6,102,926)	(7,644,780)
Cash Flows from Investing Activities		
Change in related party promissory note receivable	5,007,617	1,372
Proceeds from sale of investments	28,504,224	66,776,841
Purchase of investments	(30,312,323)	(66,957,132)
Purchase of property	(158,268)	(675,195)
Proceeds from the sale of properties	951,000	-
Net cash provided by (used in) investing activities	3,992,250	(854,114)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	6,554,252	3,277,733
Investment subject to annuity agreements	3,156,929	2,917,997
Other financing activities:		
Repayment of line of credit	(5,000,000)	-
Interest and dividends restricted for annuity agreements	89,349	198,602
Net change in restricted for annuity agreements	(514,385)	2,240,568
Payments of annuity obligations	(1,253,465)	(1,121,737)
Net cash provided by financing activities	3,032,680	7,513,163
Net Change in Cash	922,004	(985,731)
Cash - Beginning of year	688,527	1,674,258
Cash - End of year	**$ 1,610,531**	**$ 688,527**
Schedule of Noncash Investing Activities - Transfer of beneficial interest in real estate to property (Note 6)	**$ -**	**$ 1,700,000**
Supplemental Cash Flow Information - Cash paid for interest	**$ 24,275**	**$ 7,617**

See Notes to Financial Statements.

Note 1 - Organization

The University of Akron Foundation (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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

- **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, quasi-endowment principal and 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 statement of activities.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2009.

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

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, 2012 and 2011, approximately $5,000,000 and $4,000,000, respectively, of cash equivalents held as part of the investment pool are classified as investments and is excluded from cash equivalents for the purpose of the 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.

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 average cost of investments sold. Net appreciation in the fair value of investments (including realized gains (losses) and unrealized gains (losses) and dividends and interest) is included in revenue, gains, and other income of unrestricted net assets, unless the net appreciation or investment income is restricted by the donor in a non-underwater account.

At June 30, 2012 and 2011, the Foundation has remaining capital commitments for investment in a private equity fund of approximately $1,885,000 and $2,405,000, respectively.

Property - Property is recorded at cost at the date of acquisition or estimated fair value at the date of donation. Depreciation is computed over the estimated useful life of the asset, 25 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

There were no impairment losses for the year ended June 30, 2012. During the year ended June 30, 2011, property was deemed to be impaired and written down to its fair value. The carrying value of the asset exceeded its fair value, which was determined by a sales comparison of the property's competitive market area, by $615,000. An impairment loss of that amount has been charged to operations for the year ended June 30, 2011. See Note 6 for additional information.

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

Fair Value of Financial Instruments - The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. All investment securities, the actuarial liability for annuity/unitrust agreements, and refundable advances are carried at fair value in the financial statements. The Foundation also holds other assets and liabilities not measured at fair value on a recurring basis, including cash equivalents, receivables, payables, and debt. The fair value of these assets and liabilities is equal to the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 split-interest 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 at June 30, 2012 and 2011 is $14,446,728 and $12,033,539, respectively. The fair value of refundable advances at June 30, 2012 and 2011 is $84,942 and $88,805, respectively.

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

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 8, 2012, which is the date the financial statements were available to be issued.

Note 3 - Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value, discounted using the U.S. Treasury note rate in effect the year the pledge is received. For pledges made during the years ended June 30, 2012 and 2011, the future expected cash flows from pledges receivable have been discounted using a discount rate of 0.41 percent and 0.81 percent, respectively.

Pledges receivable at June 30, 2012 and 2011 are expected to be realized in the following periods:

	2012	2011
Less than one year	$ 2,556,089	$ 3,206,150
One to five years	5,978,029	5,774,296
More than five years	8,014,910	8,200,000
Total	16,549,028	17,180,446
Less amount estimated to be uncollectible	(1,026,927)	(1,073,993)
Less unamortized discount	(3,586,983)	(3,602,014)
Total pledges receivable - Net	$ 11,935,118	$ 12,504,439

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 the loss on fair value of pledges receivable in the statement of activities.

As of June 30, 2012, the Foundation has $32,380,399 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable or recognized as revenue because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these commitments or the period over which they might be collected.

Note 4 - Investments

Investments are stated at fair value. Fluctuations in fair value, as well as gains or losses on sales of securities, are recognized in the statement of activities. Investments as of June 30, 2012 and 2011 were as follows:

	2012	2011
Pooled investment funds managed for the Foundation:		
Aletheia	$ 3,956,057	$ 4,681,079
Alliance	-	375
Denver	2,424,876	2,403,923
Earnest	3,306,416	3,489,643
Eaton Vance	7,260,358	8,321,045
Grosvenor	5,800,352	5,974,574
ING Global	3,702,758	3,683,196
Invesco (formerly Aim International)	8,858,077	8,176,139
Lazard	2,730,047	3,701,385
Lord Abbett	5,577,079	-
Merrill Lynch Main Account	62,230	13,335
MetWest TALF Fund	2,413,621	3,389,903
Neuberger Berman	-	7,380,739
NFJ	7,131,113	10,494,035
Oak Associates	4,149,362	3,499,401
Parametric Delta	361,360	203,616
PIMCO	20,548,245	20,820,992
Robeco Sage	6,962,594	7,258,936
Smith Group	3,843,825	3,863,992
The Common Fund	26,418	53,089
Thornburg	11,059,976	10,080,357
Vesey Street Private Equity	4,985,407	4,070,467
Wentworth	3,507,097	4,157,127
Winslow Capital	6,762,933	-
Total pooled investment funds	115,430,201	115,717,348
Bonds	6,320,529	1,790,659
Commercial paper	-	6,747,811
Common stocks	1,868,331	1,409,713
Floaters	2,045,000	1,395,000
Insurance policies - Cash surrender value	280,453	268,700
Money market funds	4,301,443	3,976,327
Mutual funds	6,554,778	6,044,503
U.S. Treasury obligations	679,945	2,492,308
Total fair value	$ 137,480,680	$ 139,842,369
Total cost	$ 132,212,599	$ 128,235,147

Note 4 - Investments (Continued)

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.

At June 30, 2012 and 2011, in accordance with the Foundation's investment policy, approximately 70 percent of the pooled investment funds were invested in common and preferred stocks in a variety of industries and approximately 9 percent of the pooled investment funds were invested in fixed-income securities. Pooled investment funds also included alternative investments totaling $19,993,183 and $20,746,739 at June 30, 2012 and 2011, respectively. Market prices are not available for certain investments, primarily private equity and hedge funds. These investments are carried at estimated fair value provided by the funds' managements. The Foundation believes that the carrying amounts are reasonable estimates of fair value as of June 30, 2012 and 2011.

Note 5 - Fiscal Agent

The Foundation has entered into three agreements to serve as the fiscal agent for non-profit Ohio corporations for educational, scientific, and charitable purposes. As part of these agreements, the Foundation is serving as the fiscal agent until new 501(c)(3) organizations can be established by the corporations. Members of the corporations include the University of Akron and other unrelated entities. As fiscal agent, the Foundation receives grant monies to invest and disburse. The Foundation has no discretion on use of the funds. The grant funds are segregated from the Foundation investment portfolio and invested in accordance with the direction of the member institutions of the corporations.

The Foundation has recorded investments held for the corporations and a corresponding liability for these funds of approximately $2,682,000 and $4,190,000 as of June 30, 2012 and 2011, respectively, related to these agreements.

Note 6 - Property

Property consists of the following at June 30, 2012 and 2011:

	Non-depreciable	Depreciable	Total 2012	Total 2011
Avery Place Property	$ 12,017	$ -	$ 12,017	$ 12,017
Brown Street Property	81,000	-	81,000	81,000
Copley Road Property	200,000	-	200,000	200,000
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	-
Harvey Court Property	41,057	-	41,057	-
Heritage Centre Lot A	1,600,000	-	1,600,000	1,600,000
Heritage Centre Lot B	1,300,000	-	1,300,000	1,300,000
Heritage Centre Lot C	1,150,000	-	1,150,000	1,150,000
Heritage Centre Lot D	600,000	-	600,000	600,000
Miller Parkway Land	155,825	-	155,825	155,825
N Hametown Property, net of impairment*	-	-	-	1,085,000
N Pershing Avenue Property	80,000	-	80,000	-
Torrey Street Property	6,814	160,426	167,240	167,240
Treeside Drive Property	65,000	-	65,000	-
Union Street Property	126,460	-	126,460	126,460
West Saddlehorn (AZ) Property	-	-	-	225,000
Less accumulated depreciation	-	(162,077)	(162,077)	(162,077)
Total	$ 8,322,213	$ 80,889	$ 8,403,102	$ 7,727,045

During the years ended June 30, 2012 and 2011, properties valued at $1,945,000 and $425,000, respectively, were donated to the Foundation, and are included in contribution revenue in the statement of activities.

* During the year ended June 30, 2011, property valued at $1,700,000 was transferred to *Property* from *Beneficial Interests in Real Estate* (see Notes 8 and 14). At the time of this transfer, the Foundation determined that certain declines in the market value of the property would be unrecoverable. As such, $615,000 of impairment expense is included in the statement of activities for fiscal year 2011. During the year ended June 30, 2012, this property was sold for $726,000. A loss on sale of property in the amount of $359,000 was charged to operations for fiscal year 2012.

Note 7 - Investment in Direct Financing Lease

At December 1, 2011, the Foundation began leasing property to the University under a direct financing lease. The agreement calls for 60 monthly payments of $2,254 which consists of both principal and interest imputed at 2.06 percent per annum. As of June 30, 2012, the present value of future payments to be received totaled approximately $117,000 as presented on the statement of financial position. The Foundation did not have any similar arrangements in place as of June 30, 2011.

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 the use of 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. 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, 2012 and 2011 were 1.6 percent and 3.0 percent, respectively), based on the term of the agreement, as a liability.

During the year ended June 30, 2011, the Foundation received ownership of real estate previously recorded in beneficial interests. See Note 6 for further information.

Note 9 - Contributions Payable to the University

The Foundation may receive gifts on behalf of the University, for which the Foundation records a contribution payable to the University. At June 30, 2012 and 2011, the Foundation owed the University $237,243 and $830,467, respectively, for such gifts received. During the years ended June 30, 2012 and 2011, the Foundation recorded $2,384,751 and $2,780,152, respectively, of contribution revenue for amounts received on behalf of the University.

Note 10 - Line of Credit

On May 9, 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 one-month LIBOR plus 0.65 percent per annum. At June 30, 2012, the interest rate on the revolver was 0.90 percent. There were no amounts outstanding under this agreement at June 30, 2012.

Note 10 - Line of Credit (Continued)

Prior to the Foundation's current line of credit, the Foundation had a $5,000,000 revolving line of credit with PNC Financial Services. Interest on the revolver was at a fluctuating rate of LIBOR Flex plus 0.40 percent per annum. At June 30, 2011, the interest rate on the revolver was 0.59 percent. There was $5,000,000 outstanding under this agreement at June 30, 2011. The line of credit was paid off on March 30, 2012 and the agreement expired on April 1, 2012.

The proceeds from the line of credit were used by the University during fiscal year 2011. The University was responsible for the bank interest and any other costs associated with the line of credit and there were no specified repayment terms for the note. The Foundation did not charge the University any additional interest on the note. The Foundation had recorded notes receivable as of June 30, 2011 which include the amount of the transfer plus accrued interest due to the bank, totaling $5,007,617. The University repaid the entire amount during fiscal year 2012.

Note 11 - 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 the 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 fair market value of assets donated as of the date of the gift and by recording the actuarial present value of the annuities payable using the applicable IRS tables (discount rates used at June 30, 2012 and 2011 were 1.6 percent and 3.0 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.

Note 11 - Split-interest Agreements (Continued)

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 (fair value of $17,377,640 and $15,927,087 at June 30, 2012 and 2011, respectively), are recognized in the statement of activities as changes in the value of split-interest agreements.

Note 12 - Net Assets

Unrestricted net assets at June 30, 2012 and 2011 are as follows:

	2012	2011
Current operations	$ 4,945,594	$ 2,914,288
Board-designated	2,121,423	4,344,180
Underwater endowment adjustment (Note 15)	(6,357,217)	(4,489,750)
Total	$ 709,800	$ 2,768,718

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, 2012 and 2011 are as follows:

	2012	2011
Accumulated appreciation on true endowments	$ 13,795,891	$ 17,943,385
Accumulated appreciation on specific purpose funds	3,396,792	2,168,458
Specific purpose funds	18,325,261	19,025,566
Split-interest agreements	17,645	18,854
Pledges receivable	11,040,204	11,454,926
Total	$ 46,575,793	$ 50,611,189

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, 2012 and 2011 are as follows:

	2012	2011
Endowment funds	$ 91,599,941	$ 86,113,710
Split-interest agreements	3,007,212	3,841,630
Pledges receivable	894,914	1,049,513
Total	$ 95,502,067	$ 91,004,853

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 $8,147,156 and $13,403,380 during fiscal years 2012 and 2011, respectively.

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 statement of activities. For the years ended June 30, 2012 and 2011, distributions transferred to the University of $9,885,308 and $13,828,093, respectively, are net of amounts received from the University of $1,990,534 and $413,798, respectively.

The University allocated certain overhead expenses to the Foundation totaling $418,879 and $403,737 in fiscal years 2012 and 2011, respectively. These amounts are recorded as "services performed by University personnel" in the statement of activities.

Note 14 - Fair Value Measurements

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

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

Note 14 - Fair Value Measurements (Continued)

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

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

In instances where 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, 2012 and 2011, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and 2011 and the valuation techniques used by the Foundation to determine those fair values.

Note 14 - Fair Value Measurements (Continued)

Disclosures concerning assets and liabilities measured at fair value are as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Balance at June 30, 2012	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 less cash equivalents (Note 2)	$ 110,449,378	$ 80,412,243	$ 10,043,952	$ 19,993,183
Bonds	6,320,529	-	6,320,529	-
Common stocks	1,868,331	1,868,331	-	-
Floaters	2,045,000	-	2,045,000	-
Money market mutual funds	4,301,443	4,301,443	-	-
Mutual funds	6,554,778	6,554,778	-	-
U.S. Treasury obligations	679,945	679,945	-	-
Beneficial interest in real estate	335,000	-	-	335,000
Liabilities				
Actuarial liability for annuity/ unitrust agreements	(14,446,728)	-	-	(14,446,728)
Refundable advances	(84,942)	-	-	(84,942)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Balance at June 30, 2011	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 less cash equivalents (Note 2)	$ 111,627,384	$ 80,541,840	$ 10,338,805	$ 20,746,739
Bonds	1,790,659	-	1,790,659	-
Commercial paper	6,747,811	-	6,747,811	-
Common stocks	1,409,713	1,409,713	-	-
Floaters	1,395,000	-	1,395,000	-
Money market mutual funds	3,976,327	3,976,327	-	-
Mutual funds	6,044,503	6,044,503	-	-
U.S. Treasury obligations	2,492,308	2,492,308	-	-
Beneficial interest in real estate	335,000	-	-	335,000
Liabilities				
Actuarial liability for annuity/ unitrust agreements	(12,033,539)	-	-	(12,033,539)
Refundable advances	(88,805)	-	-	(88,805)

Note 14 - Fair Value Measurements (Continued)

Included in the Level 1 money market mutual funds above is approximately $4,100,000 and $3,600,000 invested in a PNC Fidelity Prime Money Market Fund and $3,470,000 and $4,630,000 invested in U.S. Treasury obligations as of June 30, 2012 and 2011, respectively. Included in the Level 2 pooled investment funds above is approximately $5,600,000 and $5,700,000 invested in FNMA securities as of June 30, 2012 and 2011, respectively. All investment allocations are in accordance with the Foundation's investment policy as described on page 24. No other significant concentrations of investments exist as of June 30, 2012 or 2011.

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis at June 30, 2012

	Hedge Funds	Private Equity Funds	Beneficial Interest in Real Estate	Actuarial Liability for Annuity/Unitrust Agreements	Refundable Advances
Balance at June 30, 2011	$ 13,233,339	$ 7,513,400	$ 335,000	$ (12,033,539)	$ (88,805)
Total unrealized (losses) gains included in change in net assets	(470,564)	42,191	-	(1,380,508)	3,863
Purchases	-	520,000	-	-	-
Sales	-	(845,183)	-	(1,032,681)	-
Balance at June 30, 2012	$ 12,762,775	$ 7,230,408	$ 335,000	$ (14,446,728)	$ (84,942)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis at June 30, 2011

	Hedge Funds	Private Equity Funds	Beneficial Interest in Real Estate	Actuarial Liability for Annuity/Unitrust Agreements	Refundable Advances
Balance at June 30, 2010	$ 6,934,807	$ 7,264,866	$ 1,700,000	$ (10,775,286)	$ (76,091)
Total unrealized gains (losses) included in change in net assets	698,532	(72,358)	-	1,999,802	(12,714)
Purchases	5,600,000	1,560,000	-	-	-
Sales	-	(1,239,108)	-	(3,258,055)	-
Transfer to *Property* (Note 6)	-	-	(1,700,000)	-	-
Contributions	-	-	335,000	-	-
Balance at June 30, 2011	$ 13,233,339	$ 7,513,400	$ 335,000	$ (12,033,539)	$ (88,805)

Note 14 - Fair Value Measurements (Continued)

Investment Policies

The Foundation has adopted investment policies in accordance with the objectives of the investment committee. The strategic allocation policy for all investments at June 30, 2012 and 2011 is as follows:

	Minimum	Target	Maximum
Domestic equities:	20%	38%	70%
Large Cap Value	10%	16.5%	30%
Large Cap Growth	10%	16.5%	30%
Small/Mid Cap Equity	-	5%	10%
International equities	5%	23%	35%
Fixed income*:	15%	19%	75%
Core	15%	16%	70%
High yield	-	3%	5%
Alternative investments**	-	20%	20%
Hedge funds:	-	12%	12%
Private equity	-	5%	5%
Global real estate	-	3%	3%
Cash***	-	-	20%

* Fixed income - Holdings primarily consist of domestic (U.S.) fixed-income securities of investment grade (at least BBB or Baa) with adequate liquidity. Securities that are issued or guaranteed by the U.S. Treasury or government agencies and instruments are considered to be AAA rated. This includes bond instruments with maturities greater than one year, which in turn may include notes, debentures, mortgages, and U.S. government securities (including agencies and TIPS). Agency, government, and high grade corporate bond holdings are investment grade.

** Alternative investments - Holdings are limited to institutional quality investments in private equity, venture capital, buy-out funds, private debt, distressed debt, and hedge funds.

*** Cash - Includes investments in fixed-income securities with maturities of less than one year, including but not limited to government notes and bills, commercial paper, bankers' acceptances, certificates of deposit, asset-backed securities, eurodollar securities, and debentures and mortgages with less than one year remaining.

Note 14 - Fair Value Measurements (Continued)

Measurement of Level 3 Assets and Liabilities

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

Investments categorized as Level 3 assets primarily consist of hedge funds and private equity funds. The Foundation estimates the fair value of these investments based on information provided by fund managers or the general partners.

Split-interest 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 contributions 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.

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, 2011, property was valued at $1,085,000 using this method, and is included in *Property - Net* on the statement of financial position (see Note 6 for further information). This balance is net of an impairment charge of $615,000 which was recognized on the property during the year ended June 30, 2011 and is included in the statement of activities. This property was sold at a loss during the year ended June 30, 2012 and a loss of sale of $359,000 is recorded in the statement of activities for the fiscal year 2012.

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 of the investment company.

Note 14 - Fair Value Measurements (Continued)

At June 30, 2012 and 2011, the fair value, net of cash equivalents, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, If Eligible	Redemption Notice Period
Grosvenor	$ 5,800,181	$ -		
MetWest TALF Fund	2,413,621	-		
Robeco Sage Hedge Fund	6,962,594	-	Quarterly	At least 45 days
Total at June 30, 2012	$ 15,176,396	$ -		

	Fair Value	Unfunded Commitments	Redemption Frequency, If Eligible	Redemption Notice Period
Grosvenor	$ 5,974,403	$ -		
MetWest TALF Fund	3,389,882	-		
Robeco Sage Hedge Fund	7,258,936	-	Quarterly	At least 45 days
Total at June 30, 2011	$ 16,623,221	$ -		

The Grosvenor hedge fund invests in over 50 portfolio funds to pursue multiple strategies globally to diversify risks and reduce volatility. The strategies used fall within four categories: distressed securities, event driven, long/short equity, and multi-arbitrage. The proportion of funds invested in each category can vary over time. At June 30, 2012, approximately 16 percent was invested in distressed securities, 19 percent in event driven, 35 percent in long/short equity, and 30 percent in multi-arbitrage. At June 30, 2011, approximately 23 percent was invested in distressed securities, 19 percent in event driven, 33 percent in long/short equity, and 25 percent in multi-arbitrage.The fair value of the Grosvenor Fund has been estimated using the net asset value per share of the investments.

As one of the federal government's efforts to stimulate economic activity and promote orderly and liquid capital markets, the Term Asset-Backed Securities Loan Facility (TALF) was unveiled in early 2009 to attract capital to consumer lending markets such as auto loans and leases, credit cards, student loans, and equipment leases. The MetWest Enhanced TALF Strategy Fund was established to capitalize on the program. The fair value of the TALF Fund has been estimated using the net asset value per share of the investments.

Note 14 - Fair Value Measurements (Continued)

The Robeco Sage hedge fund uses over 30 managers to pursue multiple strategies globally to diversify risks and reduce volatility. The strategies used fall within three categories: long/short equity, event driven, and active trading. The proportion of funds invested in each category can vary over time. At June 30, 2012, approximately 35 percent was invested in long/short equity, 32 percent in event driven, 25 percent in active trading, and the remaining 8 percent in cash and accruals. At June 30, 2011, approximately 41 percent was invested in long/short equity, 34 percent in event driven, 20 percent in active trading, and the remaining 5 percent in cash and accruals. The fair value of the Robeco Sage Fund has been estimated using the net asset value per share of the investments.

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.

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

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (6,274,564)	$ 13,795,891	$ 91,599,941	$ 99,121,268
Board-designated (quasi-endowment)	3,750,907	-	-	3,750,907
Total funds	$ (2,523,657)	$ 13,795,891	$ 91,599,941	$ 102,872,175

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	$ (274,164)	$ 17,943,385	$ 86,113,710	$ 103,782,931
Investment return:				
Investment loss	(11,468)	(250,596)	(14,991)	(277,055)
Net depreciation	(2,043,244)	(1,743,757)	(46,784)	(3,833,785)
Total investment return	(2,054,712)	(1,994,353)	(61,775)	(4,110,840)
Contributions	-	-	6,708,853	6,708,853
Appropriation of endowment assets for expenditure	(148,587)	(2,650,098)	(223,555)	(3,022,240)
Other changes:				
Change in donor designations	(46,194)	496,957	(589,446)	(138,683)
Loss on sale of property	-	-	(359,000)	(359,000)
Rental income	-	-	11,154	11,154
Endowment net assets - End of the year	$ (2,523,657)	$ 13,795,891	$ 91,599,941	$ 102,872,175

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (4,383,884)	$ 17,943,385	$ 86,113,710	$ 99,673,211
Board-designated (quasi-endowment)	4,109,720	-	-	4,109,720
Total funds	$ (274,164)	$ 17,943,385	$ 86,113,710	$ 103,782,931

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	$ (7,059,781)	$ 12,490,304	$ 81,329,387	$ 86,759,910
Investment return:				
Investment income (loss)	12,762	268,590	(11,014)	270,338
Net appreciation	6,987,219	7,670,160	657,201	15,314,580
Total investment return	6,999,981	7,938,750	646,187	15,584,918
Contributions	-	-	3,563,185	3,563,185
Appropriation of endowment assets for expenditure	(163,532)	(2,565,062)	(220,501)	(2,949,095)
Other changes:				
Change in donor designations	(50,832)	79,393	1,399,267	1,427,828
Asset impairment	-	-	(615,000)	(615,000)
Rental income	-	-	11,185	11,185
Endowment net assets - End of the year	$ (274,164)	$ 17,943,385	$ 86,113,710	$ 103,782,931

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 $6,357,217 and $4,489,750 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the board of directors.

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

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.

Spending Policy and Investment Objectives Related to Spending Policy

The Foundation investment and spending policy stipulates that 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 2.75 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.

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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 the Board of Directors
The University of Akron Foundation

We have audited the financial statements of The University of Akron Foundation (the "Foundation"), a discretely presented component unit of the University of Akron, as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated October 8, 2012. We conducted our audits 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.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
The University of Akron Foundation

Compliance and Other Matters

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 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*.

This report is intended solely for the information and use of the Foundation's board of directors, management of the Foundation, and the Auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

Toledo, Ohio
October 8, 2012

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
JANUARY 24, 2013

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