

CARING PEOPLE. SHAPING FUTURES.™

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

(a nonprofit organization)

March 31, 2010 and 2009

CONSOLIDATED FINANCIAL STATEMENTS



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CARING PEOPLE. SHAPING FUTURES.™

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Akron Community Foundation and Subsidiary:

We have audited the accompanying consolidated statement of financial position of Akron Community Foundation and Subsidiary (a nonprofit organization) as of March 31, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's March 31, 2009 consolidated financial statements and, in our report dated June 1, 2009, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Akron Community Foundation and Subsidiary as of March 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Brockman, Coats, Gedelman & Co.

June 7, 2010

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as of March 31, 2010 and 2009
(Amounts in thousands)

ASSETS	2010	2009
Cash and cash equivalents	\$ 5,448	\$ 9,556
Accrued investment income	253	260
Contributions receivable (net of allowance for uncollectible contributions of \$7 in 2010 and 2009)	191	52
Prepaid expenses	42	45
Trust accounts	9,451	8,132
Investments	108,060	78,076
Real property held for investment	1,360	2,433
Property and equipment, net	1,381	1,436
Cash value of life insurance and other assets	23	27
	<u>\$ 126,209</u>	<u>\$ 100,017</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants approved for future payment	\$ 492	\$ 549
Accounts payable and other liabilities	650	523
Funds held as agency endowment obligations	4,856	4,961
Total liabilities	<u>5,998</u>	<u>6,033</u>
Net assets:		
Unrestricted	35,714	23,409
Temporarily restricted	44,994	32,581
Permanently restricted	39,503	37,994
Total net assets	<u>120,211</u>	<u>93,984</u>
	<u>\$ 126,209</u>	<u>\$ 100,017</u>

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

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

for the year ended March 31, 2010 with comparative totals for the year ended March 31, 2009

(Amounts in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Revenues, gains (losses) and other support:					
Contributions received	\$ 317	\$ 3,495	\$ 1,267	\$ 5,079	\$ 7,142
Investment income	1,333	2,481	-	3,814	3,629
Net appreciation (depreciation) in investments and trust accounts	14,411	12,841	186	27,438	(38,829)
Less amounts for agency endowments:					
Contributions received	(173)	-	-	(173)	(2,460)
Investment income	(149)	-	-	(149)	(144)
Net (appreciation) depreciation in investments	(1,117)	-	-	(1,117)	1,645
Impairment of real property held for investment	-	(1,073)	-	(1,073)	-
Interfund transfers	(215)	159	56	-	-
Net assets released from restrictions	5,490	(5,490)	-	-	-
Total revenues, gains and other support	19,897	12,413	1,509	33,819	(29,017)
Expenses:					
Grants and other distributions	7,099	-	-	7,099	8,323
Administrative expenses	1,424	-	-	1,424	1,488
Investment expenses	613	-	-	613	692
Less amounts for agency endowments:					
Grants and other distributions	(1,477)	-	-	(1,477)	(1,520)
Administrative expenses	(46)	-	-	(46)	(47)
Investment expenses	(21)	-	-	(21)	(27)
Total expenses	7,592	-	-	7,592	8,909
Increase (decrease) in net assets	12,305	12,413	1,509	26,227	(37,926)
Net assets, beginning of year	23,409	32,581	37,994	93,984	131,910
Net assets, end of year	\$ 35,714	\$ 44,994	\$ 39,503	\$ 120,211	\$ 93,984

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

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 26,227	\$ (37,926)
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Net (appreciation) depreciation in investments and trust accounts	(27,438)	38,829
Impairment in real property held for investment	1,073	-
Depreciation	63	64
Contributions received for long-lived assets	-	(10)
Noncash contributions	(243)	(210)
Decrease in accrued investment income	7	51
(Increase) decrease in contributions receivable	(139)	31
(Increase) decrease in prepaid expenses	3	(11)
(Increase) decrease in cash value of life insurance and other assets	4	(1)
Decrease in grants approved for future payment	(57)	(12)
Increase (decrease) in accounts payable and other liabilities	127	(19)
Decrease in funds held as agency endowments	<u>(105)</u>	<u>(636)</u>
Net cash provided (used) by operating activities	<u>(478)</u>	<u>150</u>
Cash flows from investing activities:		
Purchases of investments	(58,791)	(58,970)
Proceeds from sales and maturities of investments	55,169	60,986
Expenditures for property and equipment	<u>(8)</u>	<u>(36)</u>
Net cash provided (used) by investing activities	<u>(3,630)</u>	<u>1,980</u>
Cash flows from financing activities:		
Contributions received for long-lived assets	<u>-</u>	<u>10</u>
Net increase (decrease) in cash and cash equivalents	(4,108)	2,140
Cash and cash equivalents, beginning of year	<u>9,556</u>	<u>7,416</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,448</u></u>	<u><u>\$ 9,556</u></u>

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

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended March 31, 2010 and 2009

(Amounts in thousands)

1. Summary of Significant Accounting Policies:

Principles of Consolidation – The consolidated financial statements include the accounts of Akron Community Foundation and ACF Properties, LLC, a limited liability company. During 2004, ACF Properties, LLC was organized to hold certain donated and acquired real property which is included on the consolidated statement of financial position as real property held for investment. All significant transactions between the two entities have been eliminated from the consolidated amounts.

Nature of Activities – Akron Community Foundation (the “Foundation”) is a nonprofit organization which was organized in 1955. Its primary mission is to improve the quality of life in the greater Akron area through the development of organized philanthropy. The Foundation is committed to enriching the life of the community through grant making in six distinct areas: children, health, civic affairs, education, cultural and community services.

Financial Statement Presentation – The Foundation presents information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – under the discretionary control of the Board of Trustees and include amounts designated by the Board of Trustees for specified purposes.

Temporarily Restricted Net Assets – are restricted by the donor for a specific purpose or for use in a future time period. As restrictions are met or expire, the net assets are released from restrictions and transferred to unrestricted.

Permanently Restricted Net Assets – are subject to the donor’s restriction that the principal remain invested in perpetuity.

Net investment income on permanently restricted net assets is classified as either permanently restricted, temporarily restricted, or unrestricted, depending on the gift agreement.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 – Cash and cash equivalents primarily include amounts held for grants and other disbursements and amounts received from contributions which are held pending investment. Cash and cash equivalents include cash on hand, cash in checking and money market accounts and short-term investments with an original investment term of three months or less.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2010 and 2009 (Amounts in thousands)

1. Summary of Significant Accounting Policies, Continued:

Investments – The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statements of financial position. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur and interest and dividends are recognized as revenue in the period earned. Realized gains and losses are determined on the specific identification method.

Third Party Trusts – The Foundation is the sole or joint beneficiary to the income of certain trusts held by third parties. The Foundation records these trust accounts at the fair value of the trust assets available for distribution to the Foundation, as the Foundation has determined that the fair value of the trust assets generally approximates the present value of expected future cash receipts. Distributions the Foundation receives from the trusts are recorded as investment income in the consolidated statements of activities.

Pooled Life Income Funds – Upon death of the donors, the Foundation is the beneficiary to the residual value of certain pooled life income funds. Deferred revenue is the difference between the fair value of the pooled life income funds at the time of receipt of the gift and the present value of the estimated future cash flows, and is included in accounts payable and other liabilities.

Contributions Receivable – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. An allowance for uncollectible pledges is provided based on experience and anticipated collection efforts and is adjusted for current conditions as deemed appropriate.

Property and Equipment – Property and equipment acquisitions are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 35 years. Repairs and maintenance costs are expensed as incurred.

Contributions – Contributions, bequests, special gifts and other donations are recorded as revenue when received or, if by pledge, when the pledge is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Noncash bequests, gifts, and donations are recorded at the fair market value of the asset at the date of donation.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2010 and 2009 (Amounts in thousands)

1. Summary of Significant Accounting Policies, Continued:

Grants – The Board of Trustees has established a spending policy based upon the quarterly market value of assets. The spending policy provides guidelines for amounts to be expended for grants and other expenses. All grants and other distributions are approved by the Board of Trustees. Unconditional grants are recognized when approved. Grants approved by the Board of Trustees that are payable upon performance of specified conditions by the grantee are recognized in the consolidated statements of activities when the specified conditions are substantially satisfied.

Functional Expenses – The costs of supporting the activities of the Foundation have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services as follows:

	<u>2010</u>	<u>2009</u>
Program expenses	\$ 7,662	\$ 8,912
Management and general	970	1,027
Development	<u>504</u>	<u>564</u>
	9,136	10,503
Less amounts for agency endowments	<u>1,544</u>	<u>1,594</u>
	<u>\$ 7,592</u>	<u>\$ 8,909</u>

Comparative Financial Information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended March 31, 2009, from which the summarized information was derived.

Income Taxes – The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from income taxes. The Subsidiary is a limited liability company and is not a tax paying entity for federal or state income tax purposes. Therefore, no provisions for federal and state income taxes have been recorded in the statements.

In 2010, the Foundation adopted an accounting pronouncement related to uncertainties in income taxes, which provides for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return that has a greater than 50% chance of not being allowed under examination and could affect the Foundation's tax exempt status. The adoption of the new accounting pronouncement did not have a material effect on the consolidated financial statements.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2010 and 2009 (Amounts in thousands)

1. Summary of Significant Accounting Policies, Continued:

Funds Held as Agency Endowments – *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, establishes accounting and reporting standards for transactions in which a donor transfers assets to a not-for-profit organization that accepts the assets from the donor and agrees to transfer those assets, the return on investment, or both, to the donor or another entity specified by the donor. Pursuant to this pronouncement, certain agency endowment funds received by the Foundation are considered liabilities, rather than net assets of the Foundation.

Subsequent Events – During 2010, the Foundation adopted a new accounting policy regarding subsequent events. Although it does not change existing guidance on recognition and disclosure of subsequent events, it requires additional disclosure of the date through which the Foundation has evaluated subsequent events. Management of the Foundation has evaluated subsequent events through June 7, 2010, the date the consolidated financial statements were available to be issued.

2. Investments:

Investments are stated at fair value and consist of the following at March 31:

	<u>2010</u>	<u>2009</u>
Marketable equity securities	\$ 81,402	\$ 53,403
U.S. government obligations	16,983	16,328
Corporate bonds	<u>9,675</u>	<u>8,345</u>
	<u>\$ 108,060</u>	<u>\$ 78,076</u>

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated statements of financial position and the consolidated statements of activities.

3. Real Property Held for Investment:

The Foundation has ownership in two real estate properties through its status as a limited partner in a development agreement (46% ownership by the Foundation) and a land lease (99% ownership by the Foundation). Revenue is restricted from both parties to support a scholarship fund held as a fund of the Foundation. As limited partner, the Foundation does not take part in management of the business or affairs of the partnership and does not have the right or authority to act on behalf of the partnership. Further, the Foundation is not liable for any losses, debts or liabilities of the partnership.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2010 and 2009 (Amounts in thousands)

4. Property and Equipment:

Property and equipment consist of the following at March 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 344	\$ 344
Building and improvements	1,290	1,290
Furniture and fixtures	<u>370</u>	<u>362</u>
	2,004	1,996
Less accumulated depreciation	<u>623</u>	<u>560</u>
	<u>\$ 1,381</u>	<u>\$ 1,436</u>

5. Cash Surrender Value of Life Insurance:

The Foundation is the beneficiary of two individual life insurance policies with face values totaling approximately \$66 and \$65 at March 31, 2010 and 2009, respectively. The amount reported in the accompanying consolidated statements of financial position represents the cash surrender value of the policies as of year end.

6. Retirement Plans:

The Foundation offers a voluntary tax deferred plan under the provisions of Section 403(b) of the Internal Revenue Code, which permits employees to elect to invest a portion of their compensation until retirement. The plan is available to all full-time employees. Contributions made by the Foundation totaled \$60 in 2010 and \$62 in 2009.

The Foundation also has a plan to provide supplemental retirement benefits to a former employee. Payments of \$3 are made monthly and continue for 15 years or until the former employee's death. After 15 years, the payments increase by \$1 per month. Benefit payments totaled \$32 in 2010 and \$21 in 2009.

7. Line of Credit:

The Foundation has an unsecured line of credit for \$100 which provides for interest at the bank's prime rate (prime 3.25% at March 31, 2010). There was no outstanding balance on this line of credit as of March 31, 2010 and 2009.

8. Fair Value Measurements:

Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under *Fair Value Measurements* are as follows:

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

8. Fair Value Measurements, Continued:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are unobservable for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers other specific factors. The following section describes the valuation techniques used to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Investments and trusts comprise securities measured at level 1. Investments whose values are based on quoted market prices in active markets are classified within Level 1. These investments generally include equity securities traded on a national securities exchange or listed on the Nasdaq, U.S. government and corporate securities and money market securities.

Real property held for investment categorized as level 3 (unobservable inputs) is reported at the fair value of the property at the time of the donation to the Foundation less any impairment losses. The fair value is based on a combination of capitalized income from the property as well as comparable direct sales.

The following table presents the investments in securities, trusts, and property carried on the statement of financial position by level within the fair value hierarchy as of March 31:

	<u>2010</u>	<u>2009</u>
Assets:		
Investments		
Level 1	\$ 108,060	\$ 78,076
Trusts accounts		
Level 1	9,451	8,132
Real property held for investment		
Level 3	<u>1,360</u>	<u>2,433</u>
	<u>\$ 118,871</u>	<u>\$ 88,641</u>

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

8. Fair Value Measurements, Continued:

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended March 31, 2010.

	<u>Real Property Held For Investment</u>
Balance at March 31, 2009	\$ 2,433
Impairment of real property held for investment	<u>(1,073)</u>
Balance at March 31, 2010	<u>\$ 1,360</u>

The value of level 3 assets did not change during 2009.

9. Restricted Net Assets:

Restricted net assets include the following types of restrictions by the donors:

Donor Advised funds are subject to ongoing recommendations or designations by donors. Donors serve as advisory members to the fund and recommend to the Foundation the charitable organizations or fields of interest to receive grants from the funds.

Agency Endowment funds are restricted to make grants to designated nonprofit agencies to provide long term support of the agencies' mission and charitable programs.

Scholarship funds are restricted to provide scholarships for specified fields of study, schools or types of students.

Permanently restricted net assets are restricted by the donor to be held in perpetuity with the related income expendable to support either temporarily restricted or unrestricted purposes, according to the gift instruments. Permanently restricted net assets at March 31 are as follows:

	<u>2010</u>	<u>2009</u>
Permanently restricted portion of donor advised funds	\$ 3,481	\$ 3,442
Permanently restricted portion of agency endowment funds	26,393	24,948
Other permanently restricted funds	<u>9,629</u>	<u>9,604</u>
	<u>\$ 39,503</u>	<u>\$ 37,994</u>

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

9. Restricted Net Assets, Continued:

Temporarily restricted net assets at March 31 are as follows:

	<u>2010</u>	<u>2009</u>
Temporarily restricted portion of donor advised funds	\$ 18,374	\$ 12,066
Temporarily restricted portion of agency endowment funds	16,807	13,357
Temporarily restricted portion of scholarship funds	4,095	4,432
Other temporarily restricted funds	<u>5,718</u>	<u>2,726</u>
Total	<u>\$ 44,994</u>	<u>\$ 32,581</u>

Net assets released from restrictions of \$5,490 in 2010 and \$5,995 in 2009 resulted from incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors.

10. Description of Leasing Arrangement:

The Foundation leases office equipment under a noncancelable operating lease that expires in December, 2012, with minimum rental payments of \$8 per annum. The lease expense totaled \$8 in 2010 and 2009.

11. Endowment:

The State of Ohio adopted its version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") which became effective June 1, 2009. The Foundation has adopted UPMIFA for the year ended March 31, 2010.

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

11. Endowment, Continued:

Interpretation of Relevant Law – Under the terms of the Foundation’s governing documents, the Board of Trustees has determined that the majority of the Foundation’s contributions are subject to the terms of the governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. In addition, under the terms of agreements with donors, the Foundation has variance power over amounts contributed to the Foundation; that is, the ultimate discretion of the use of such funds lies with the discretion of the Board of Trustees. As a result of such variance power, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Endowment Net Asset Classification by Type of Fund

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,639)	\$ 26,620	\$ 36,022	\$ 61,003
Donor-advised funds	-	18,374	3,481	21,855
Board-designated funds functioning as endowment	<u>26,305</u>	<u>-</u>	<u>-</u>	<u>26,305</u>
Total funds	<u>\$ 24,666</u>	<u>\$ 44,994</u>	<u>\$ 39,503</u>	<u>\$ 109,163</u>
	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,229)	\$ 20,515	\$ 34,552	\$ 47,838
Donor-advised funds	179	12,066	3,442	15,687
Board-designated funds functioning as endowment	<u>20,584</u>	<u>-</u>	<u>-</u>	<u>20,584</u>
Total funds	<u>\$ 13,534</u>	<u>\$ 32,581</u>	<u>\$ 37,994</u>	<u>\$ 84,109</u>

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

11. Endowment, Continued:

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, March 31, 2008	\$ 27,911	\$ 56,670	\$ 34,913	\$ 119,494
Investment return:				
Investment income	1,569	1,896	-	3,465
Net depreciation	(13,477)	(21,353)	-	(34,830)
Total investment return	(11,908)	(19,457)	-	(31,365)
Contributions	281	1,360	3,041	4,682
Appropriation of endowment assets for expenditure	(2,670)	(5,995)	-	(8,665)
Other changes	(80)	3	40	(37)
Endowment net assets, March 31, 2009	13,534	32,581	37,994	84,109
Investment return:				
Investment income	1,175	2,481	-	3,656
Net appreciation	11,986	12,841	186	25,013
Impairment of real property held for investment	-	(1,073)	-	(1,073)
Total investment return	13,161	14,249	186	27,596
Contributions	144	3,495	1,267	4,906
Appropriation of endowment assets for expenditure	(1,956)	(5,490)	-	(7,446)
Other changes	(217)	159	56	(2)
Endowment net assets, March 31, 2010	\$ 24,666	\$ 44,994	\$ 39,503	\$ 109,163

As a result of the adoption of UPMIFA, \$4,496 of board-designated funds functioning as endowment as of March 31, 2008, have been reclassified from unrestricted to temporarily or permanently restricted net assets based upon purpose or time restrictions imposed under donor gift instruments or fund agreements.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
for the years ended March 31, 2010 and 2009
(Amounts in thousands)

11. Endowment, Continued:

Description of Amounts Classified as Permanently and Temporarily Restricted Net Assets

	<u>2010</u>	<u>2009</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation.	\$ 39,503	\$ 37,994
Temporarily Restricted Net Assets		
Investments, temporarily restricted for future grants and operating expenditures	\$ 44,994	\$ 32,581

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 grants supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Board of Directors has established a spending policy providing guidelines for amounts available annually for distribution in the form of grants and operating expenses net of certain offsetting contributions and administrative fee income. Investment management fees are not included in the spending policy. The spending policy is based upon a maximum of 5% of the average market value of the Foundation’s total investment pool for the previous twelve calendar quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation’s objective to maintain purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Investment expenses – Investment expenses comprise both management and custodial fees and are evaluated periodically for reasonableness by management and the Board of Trustees. Investment expenses, net of those related to agency endowment obligations, totaled \$592 for 2010 and \$665 for 2009, and as a percentage of average invested assets comprised 0.62% for 2010 and 0.66% for 2009.