

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**

**(a nonprofit organization)**

**March 31, 2014 and 2013**

**CONSOLIDATED FINANCIAL STATEMENTS**



## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Akron Community Foundation and Subsidiaries:

We have audited the accompanying consolidated financial statements of Akron Community Foundation and Subsidiaries (collectively, the organization), which comprise the consolidated statements of financial position as of March 31, 2014 and 2013, and the related consolidated statement of activity and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **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 Subsidiaries as of March 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Akron Community Foundation and Subsidiaries' 2013 consolidated financial statements, and our report dated May 29, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Brockman, Coats, Gedelion & Co.*

June 4, 2014

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**March 31, 2014 and 2013**

**(Amounts in thousands)**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 7,737	\$ 7,097
Accrued investment income	171	196
Contributions receivable, net	861	1,203
Prepaid expenses	81	51
Trust accounts	11,085	10,618
Investments	159,707	129,010
Real property held for investment	552	667
Property and equipment, net	765	1,362
Cash surrender value of life insurance	27	26
	<u>\$ 180,986</u>	<u>\$ 150,230</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Grants approved for future payment	\$ 658	\$ 540
Accounts payable and other liabilities	499	501
Funds held as agency endowment obligations	21,149	6,337
Total liabilities	<u>22,306</u>	<u>7,378</u>
Net assets:		
Unrestricted	43,635	40,598
Temporarily restricted	74,414	61,911
Permanently restricted	40,631	40,343
Total net assets	<u>158,680</u>	<u>142,852</u>
	<u>\$ 180,986</u>	<u>\$ 150,230</u>

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

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF ACTIVITY**
**for the year ended March 31, 2014**
**(with summarized totals for the year ended March 31, 2013)**
**(Amounts in thousands)**

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and other support:					
Contributions	\$ 13,305	\$ 6,703	\$ 253	\$ 20,261	\$ 7,438
Investment income	1,463	2,395	-	3,858	3,264
Net appreciation in investments and trust accounts	6,189	11,130	33	17,352	9,065
Less amounts for agency endowments:					
Contributions	(12,922)	-	-	(12,922)	(785)
Investment income	(390)	-	-	(390)	(127)
Net appreciation in investments	(2,026)	-	-	(2,026)	(392)
Impairment of real property held for investment	-	(115)	-	(115)	-
Fund reclassifications	(2)	-	2	-	-
Net assets released from restrictions	7,610	(7,610)	-	-	-
Total revenues and other support	13,227	12,503	288	26,018	18,463
Expenses:					
Grants and other distributions	7,545	-	-	7,545	7,594
Administrative expenses	1,834	-	-	1,834	1,654
Investment expenses	642	-	-	642	544
Donor engagement expenses	124	-	-	124	136
Less amounts for agency endowments:					
Grants and other distributions	(359)	-	-	(359)	(332)
Administrative expenses	(111)	-	-	(111)	(55)
Investment expenses	(56)	-	-	(56)	(18)
Total expenses	9,619	-	-	9,619	9,523
Gross insurance proceeds due to fire	148	-	-	148	-
Fire related expenses	(51)	-	-	(51)	-
Loss on disposal of property and equipment	(20)	-	-	(20)	-
Impairment of property and equipment due to fire	(648)	-	-	(648)	-
Increase in net assets	3,037	12,503	288	15,828	8,940
Net assets, beginning of year	40,598	61,911	40,343	142,852	133,912
Net assets, end of year	\$ 43,635	\$ 74,414	\$ 40,631	\$ 158,680	\$ 142,852

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

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**for the years ended March 31, 2014 and 2013**

**(Amounts in thousands)**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 15,828	\$ 8,940
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Net appreciation in investments and trust accounts	(17,352)	(9,065)
Impairment in real property held for investment	115	-
Depreciation	81	72
Loss on disposal of property and equipment	20	-
Impairment of property and equipment due to fire	648	-
Noncash contributions	(970)	(2,094)
(Increase) decrease in operating assets:		
Accrued investment income	25	(19)
Contributions receivable	342	(303)
Prepaid expenses	(30)	11
Cash surrender value of life insurance	(1)	-
Increase (decrease) in operating liabilities:		
Grants approved for future payment	118	(330)
Accounts payable and other liabilities	9	1
Funds held as agency endowments	14,812	898
Net cash provided (used) by operating activities	<u>13,645</u>	<u>(1,889)</u>
Cash flows from investing activities:		
Purchases of investments	(51,909)	(38,790)
Proceeds from sales and maturities of investments	39,056	43,076
Expenditures for property and equipment	<u>(152)</u>	<u>(71)</u>
Net cash provided (used) by investing activities	<u>(13,005)</u>	<u>4,215</u>
Net increase in cash and cash equivalents	640	2,326
Cash and cash equivalents, beginning of year	<u>7,097</u>	<u>4,771</u>
Cash and cash equivalents, end of year	<u>\$ 7,737</u>	<u>\$ 7,097</u>

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



## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 1. Summary of Significant Accounting Policies:

**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 by building permanent endowments and providing philanthropic leadership that enables donors to make lasting investments in the community. The Foundation is committed to enriching the life of the community through grant making in distinct areas: arts and culture, education, health and human services and civic affairs/community services.

**Principles of Consolidation** – The consolidated financial statements include the accounts of Akron Community Foundation, ACF Properties, LLC and Akron Digital Media Center/Akronist.com, LLC. During 2004, ACF Properties, LLC was organized to hold certain donated and acquired real property which is included on the consolidated statements of financial position as real property held for investment. During 2011, Akron Digital Media Center/Akronist.com, LLC was organized to facilitate a community challenge grant received by the Foundation from another nonprofit organization. All significant transactions between these entities have been eliminated from the consolidated amounts.

**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 Directors and include amounts designated by the Board of Directors 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 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 of America 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 and cash in checking and money market accounts.



## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 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. In addition, the Foundation holds certain funds in alternative investments which are carried at the funds' net asset value. 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 statement of activity.

**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. Noncash bequests, gifts, and donations are recorded at the fair market value of the asset at the date of donation.

**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.

**Grants** – The Board of Directors 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 Directors. Unconditional grants are recognized when approved. Grants approved by the Board of Directors that are payable upon performance of specified conditions by the grantee are recognized in the consolidated statement of activity when the specified conditions are substantially satisfied.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 1. Summary of Significant Accounting Policies, Continued:

**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>2014</u>	<u>2013</u>
Program expenses	\$ 8,333	\$ 8,314
Management and general	1,171	1,035
Development	<u>641</u>	<u>579</u>
	10,145	9,928
Less amounts for agency endowments	<u>526</u>	<u>405</u>
	<u>\$ 9,619</u>	<u>\$ 9,523</u>

The amounts above include costs associated with the Foundation's donor engagement plan. In September, 2011 the Foundation implemented a three year strategic plan to create a more donor-centric organization. These expenses are included in the consolidated statement of activity separate from administrative expenses and totaled \$124 in 2014 and \$136 in 2013.

**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, 2013, 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. ACF Properties, LLC and Akron Digital Media Center/Akronist.com, LLC are limited liability companies and are not tax paying entities for federal or state income tax purposes. Therefore, no provisions for federal and state income taxes have been recorded in the consolidated financial statements.

The Foundation accounts for uncertainties in income taxes in accordance with generally accepted accounting principles, which provides for financial statement recognition and measurement of tax positions taken or expected to be taken in tax returns that have a greater than 50% chance of not being allowed under examination. No such positions have been recorded in the March 31, 2014 and 2013 consolidated financial statements. If such positions were taken, the resulting interest and penalties would be recognized as income tax expense.

As of March 31, 2014, the Foundation's federal informational returns are subject to examination by the Internal Revenue Service for the tax years 2011 and thereafter.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 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** – Management of the Foundation has evaluated subsequent events through June 4, 2014, 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>2014</u>	<u>2013</u>
Marketable equity securities	\$ 103,390	\$ 83,695
U.S. government obligations	11,741	10,596
Corporate bonds	7,143	7,117
Other fixed income	12,906	9,774
Multi-class mutual funds	8,987	6,535
Alternative investments	<u>15,540</u>	<u>11,293</u>
	<u>\$ 159,707</u>	<u>\$ 129,010</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 statement of activity.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 3. Real Property Held for Investment:

The Foundation has ownership in a real estate property through its status as a limited partner in a development agreement (46% ownership by the Foundation). Revenue is restricted from the property to support a scholarship fund held as a fund of the Foundation. As a 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. In 2014, the Foundation recorded a charge for impairment of the property of \$115 based on an analysis of fair value of the property. The property's value was \$552 and \$667 at March 31, 2014 and 2013, respectively, and is valued using an income capitalization analysis.

#### 4. Contributions Receivable:

Contributions receivable represent promises to pay recorded at the present value of estimated future cash flows using an interest rate of 3.25%, which approximates the prevailing borrowing rate. Aggregate maturities of contributions receivable are as follows:

2015	\$	445
2016		226
2017		100
2018		51
2019		24
Thereafter		<u>66</u>
		912
Less: Discounts to net present value		46
Allowance for doubtful accounts		<u>5</u>
	\$	<u><u>861</u></u>

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(Amounts in thousands)**

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**5. Property and Equipment:**

Property and equipment consist of the following at March 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 344	\$ 344
Building and improvements	206	1,318
Furniture and fixtures	309	358
Construction in progress	<u>100</u>	<u>-</u>
	959	2,020
Less accumulated depreciation	<u>194</u>	<u>658</u>
Property and equipment, net	<u>\$ 765</u>	<u>\$ 1,362</u>

Refer to Footnote 12 for impairment due to fire.

**6. Cash Surrender Value of Life Insurance:**

The Foundation is the beneficiary of four individual life insurance policies with face values totaling approximately \$172 and \$170 at March 31, 2014 and 2013, respectively. The amount reported in the accompanying consolidated statements of financial position represents the cash surrender value of the policies as of fiscal year end.

**7. 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. The Foundation does not make contributions to this plan.

The Foundation also has a plan to provide supplemental retirement benefits to a former employee. Payments of approximately \$3 are made monthly and continue for 15 years or until the former employee's death. After 15 years, the payments increase by approximately \$1 per month. Benefit payments totaled approximately \$32 in 2014 and 2013.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 8. Commitments:

The Foundation leases office equipment under a non-cancelable operating lease that expires in July, 2016, with minimum rental payments of \$5 per annum. This lease expense totaled \$5 in 2014 and \$6 in 2013.

In addition, as a result of a fire at the Foundation's main office building, the Foundation has relocated to temporary office space under a non-cancelable operating lease agreement that expires in November, 2014. Further, as part of the relocation, the Foundation leased temporary office furniture under a non-cancelable operating lease that expires in November, 2014. This lease expense totaled \$13 in 2014 with expected minimum rental payments of \$101 in 2015. These costs are fully covered under the business continuation portion of the Foundation's insurance policy.

The Foundation has entered into various non-cancelable licensing agreements for software programs that expire in September, 2018. The minimum subscription fees are \$33 per annum with annual increases not to exceed 6% or 7%, depending on the licensing agreement. The subscription fees totaled \$33 in 2014 and \$27 in 2013.

#### 9. 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:

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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the years ended March 31, 2014 and 2013  
(Amounts in thousands)

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9. Fair Value Measurements, Continued:

U.S. domestic equity, mutual funds, fixed income, alternative investments and trusts comprise securities measured at level 1, 2 and 3. Investments whose values are based on quoted market prices in active markets are classified within level 1. These investments generally include equity and mutual fund securities traded on a national securities exchange or listed on the Nasdaq and U.S. government obligations. Corporate bonds, U.S. government agencies and municipal obligations are measured at level 2 and are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Alternative investments categorized at level 2 are valued at the net asset value (NAV) of shares held at year end. They generally include diversified, multi-strategy, multi-manager funds of hedge funds whose objective is to seek capital appreciation with limited risk and low correlation with the U.S. equity and fixed income markets, and are categorized as level 1 and level 2 (observable inputs). When observable prices are not available for these investments, the funds use one or more valuation techniques for which sufficient data is available. The selection of appropriate valuation techniques may be affected by the availability of relevant inputs as well as the relative reliability of inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. The results of the application of the various techniques may not be equally representative of fair value, due to factors such as assumptions made in the valuation. In some situations, the funds may determine it appropriate to evaluate and weigh the results to develop a range of possible values, with the fair value based on the funds' assessment of the most representative point within the range.

Alternative investments categorized at level 3 are valued at the original capital contribution plus any subsequent pro-rata portion of investment gains and losses and interest and dividend income from the underlying investments less operating expenses.

Money market funds are measured at level 2 and are valued at the NAV of shares held at year end. The NAV of these funds is calculated using the amortized cost of the securities held in the funds, which generally include investments in high-quality, short-term 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.

Noncurrent contributions receivable, categorized as level 3 (unobservable inputs), are recorded at their present value of estimated future cash flows using a discount rate of 3.25%.



**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(Amounts in thousands)**

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**9. Fair Value Measurements, Continued:**

The following tables set forth a summary of the Foundation's investments with a reported NAV as of March 31:

	<b>2014</b>			
	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Money market funds	\$ 7,071	\$ -	Daily	None
Fund of hedge funds	<u>12,009</u>	<u>-</u>	Quarterly	90-95 days
Total	<u>\$ 19,080</u>	<u>\$ -</u>		

	<b>2013</b>			
	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Money market funds	\$ 6,504	\$ -	Daily	None
Fund of hedge funds	<u>11,099</u>	<u>-</u>	Quarterly	90-95 days
Total	<u>\$ 17,603</u>	<u>\$ -</u>		

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(Amounts in thousands)**
**9. Fair Value Measurements, Continued:**

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

	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	\$ -	\$ 7,071	\$ -	\$ 7,071
U.S. domestic equity:				
Consumer discretionary	7,256	-	-	7,256
Consumer staples	2,332	-	-	2,332
Energy	5,523	-	-	5,523
Financials	9,646	-	-	9,646
Healthcare	5,077	-	-	5,077
Industrials	8,877	-	-	8,877
Information technology	7,498	-	-	7,498
Materials	3,272	-	-	3,272
Other equity	697	-	-	697
Telecommunications	326	-	-	326
Utilities	802	-	-	802
Total U.S. domestic equity	51,306	-	-	51,306
U.S. domestic equity mutual funds	16,370	-	-	16,370
International equity mutual funds	35,714	-	-	35,714
Fixed income:				
Corporate bonds	-	7,143	-	7,143
Fixed income mutual funds	12,872	-	-	12,872
Municipal obligations	-	34	-	34
U.S. government agencies	-	4,206	-	4,206
U.S. treasury obligations	7,535	-	-	7,535
Total fixed income	20,407	11,383	-	31,790
Multi-class mutual funds	8,987	-	-	8,987

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(Amounts in thousands)**
**9. Fair Value Measurements, Continued:**

	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Alternative investments:				
Fund of hedge funds	-	12,009	-	12,009
Multi-class fund	-	-	3,030	3,030
Other alternatives	<u>501</u>	<u>-</u>	<u>-</u>	<u>501</u>
Total alternative investments	<u>501</u>	<u>12,009</u>	<u>3,030</u>	<u>15,540</u>
Trusts accounts	<u>11,085</u>	<u>-</u>	<u>-</u>	<u>11,085</u>
Real property held for investment	<u>-</u>	<u>-</u>	<u>552</u>	<u>552</u>
Noncurrent contributions receivable	<u>-</u>	<u>-</u>	<u>421</u>	<u>421</u>
Total assets at fair value	<u>\$ 144,370</u>	<u>\$ 30,463</u>	<u>\$ 4,003</u>	<u>\$ 178,836</u>
	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	<u>\$ -</u>	<u>\$ 6,504</u>	<u>\$ -</u>	<u>\$ 6,504</u>
U.S. domestic equity:				
Consumer discretionary	6,138	-	-	6,138
Consumer staples	2,007	-	-	2,007
Energy	4,389	-	-	4,389
Financials	7,288	-	-	7,288
Healthcare	3,103	-	-	3,103
Industrials	7,814	-	-	7,814
Information technology	5,519	-	-	5,519
Materials	2,941	-	-	2,941
Other equity	1,928	-	-	1,928
Telecommunications	669	-	-	669
Utilities	<u>790</u>	<u>-</u>	<u>-</u>	<u>790</u>
Total U.S. domestic equity	<u>42,586</u>	<u>-</u>	<u>-</u>	<u>42,586</u>

**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(Amounts in thousands)**
**9. Fair Value Measurements, Continued:**

	<b>2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Total</b>		
U.S. domestic equity mutual funds	<u>13,531</u>	<u>-</u>	<u>-</u>
International equity mutual funds	<u>27,578</u>	<u>-</u>	<u>-</u>
Fixed income:			
Corporate bonds	-	7,117	-
Fixed income mutual funds	9,737	-	-
Municipal obligations	-	37	-
U.S. government agencies	-	4,326	-
U.S. treasury obligations	<u>6,270</u>	<u>-</u>	<u>-</u>
Total fixed income	<u>16,007</u>	<u>11,480</u>	<u>-</u>
Multi-class mutual funds	<u>6,535</u>	<u>-</u>	<u>-</u>
Alternative investments:			
Fund of hedge funds	-	11,099	-
Other alternatives	<u>194</u>	<u>-</u>	<u>-</u>
Total alternative investments	<u>194</u>	<u>11,099</u>	<u>-</u>
Trusts accounts	<u>10,618</u>	<u>-</u>	<u>-</u>
Real property held for investment	<u>-</u>	<u>-</u>	<u>667</u>
Noncurrent contributions receivable	<u>-</u>	<u>-</u>	<u>732</u>
Total assets at fair value	<u>\$ 117,049</u>	<u>\$ 29,083</u>	<u>\$ 1,399</u>
			<u>\$ 147,531</u>

# AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

### 9. 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 years ended March 31, 2014 and 2013.

	<u>Multi-Class Fund</u>	<u>Noncurrent Contributions Receivable</u>	<u>Real Property Held For Investment</u>
Balance at March 31, 2012	\$ -	\$ 660	\$ 667
Additions to long-term pledges	-	391	-
Contributions receivable, which became due within one year	-	(319)	-
Balance at March 31, 2013	-	732	667
Impairment of real property held for investment	-	-	(115)
Purchases	3,009	-	-
Unrealized gains	24	-	-
Additions to long-term pledges	-	79	-
Sales	(3)	-	-
Contributions receivable, which became due within one year	-	(390)	-
Balance at March 31, 2014	<u>\$ 3,030</u>	<u>\$ 421</u>	<u>\$ 552</u>

### 10. 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.

# AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

### 10. Restricted Net Assets, Continued:

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>2014</u>	<u>2013</u>
Donor advised funds	\$ 3,494	\$ 3,467
Agency endowment funds	27,493	27,232
Other	<u>9,644</u>	<u>9,644</u>
	<u>\$ 40,631</u>	<u>\$ 40,343</u>

Temporarily restricted net assets at March 31 are as follows:

	<u>2014</u>	<u>2013</u>
Donor advised funds	\$ 33,596	\$ 27,236
Agency endowment funds	25,776	21,435
Scholarship funds	6,602	6,138
Building fund	672	612
Other	<u>7,768</u>	<u>6,490</u>
Total	<u>\$ 74,414</u>	<u>\$ 61,911</u>

Net assets released from restrictions of \$7,610 in 2014 and \$7,432 in 2013 resulted from incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors.

### 11. Endowment:

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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** – Contributions made to the Foundation are subject to the terms of the Foundation's 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 Directors. 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.

AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
for the years ended March 31, 2014 and 2013  
(Amounts in thousands)

11. Endowment, Continued:

*Endowment Net Asset Classification by Type of Fund*

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 40,818	\$ 37,137	\$ 77,955
Donor-advised funds	-	33,596	3,494	37,090
Board-designated funds functioning as endowment	<u>31,815</u>	<u>-</u>	<u>-</u>	<u>31,815</u>
Total funds	<u>\$ 31,815</u>	<u>\$ 74,414</u>	<u>\$ 40,631</u>	<u>\$ 146,860</u>
	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (290)	\$ 34,675	\$ 36,876	\$ 71,261
Donor-advised funds	-	27,236	3,467	30,703
Board-designated funds functioning as endowment	<u>28,860</u>	<u>-</u>	<u>-</u>	<u>28,860</u>
Total funds	<u>\$ 28,570</u>	<u>\$ 61,911</u>	<u>\$ 40,343</u>	<u>\$ 130,824</u>



**AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**  
**for the years ended March 31, 2014 and 2013**  
**(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, 2012	\$ 25,992	\$ 56,490	\$ 39,953	\$ 122,435
Investment return:				
Investment income	1,001	2,118	-	3,119
Net appreciation	<u>3,031</u>	<u>5,204</u>	<u>12</u>	<u>8,247</u>
Total investment return	<u>4,032</u>	<u>7,322</u>	<u>12</u>	<u>11,366</u>
Contributions	<u>696</u>	<u>5,714</u>	<u>243</u>	<u>6,653</u>
Appropriation of endowment assets for expenditure	<u>(2,198)</u>	<u>(7,432)</u>	<u>-</u>	<u>(9,630)</u>
Other changes	<u>48</u>	<u>(183)</u>	<u>135</u>	<u>-</u>
Endowment net assets, March 31, 2013	<u>28,570</u>	<u>61,911</u>	<u>40,343</u>	<u>130,824</u>
Investment return:				
Investment income	1,041	2,395	-	3,436
Net appreciation	3,678	11,130	33	14,841
Impairment of real property held for investment	<u>-</u>	<u>(115)</u>	<u>-</u>	<u>(115)</u>
Total investment return	<u>4,719</u>	<u>13,525</u>	<u>33</u>	<u>18,277</u>
Contributions	<u>384</u>	<u>6,703</u>	<u>253</u>	<u>7,340</u>
Appropriation of endowment assets for expenditure	<u>(1,856)</u>	<u>(7,610)</u>	<u>-</u>	<u>(9,466)</u>
Other changes	<u>(2)</u>	<u>-</u>	<u>2</u>	<u>-</u>
Endowment net assets, March 31, 2014	<u>\$ 31,815</u>	<u>\$ 74,414</u>	<u>\$ 40,631</u>	<u>\$ 146,860</u>

# AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

### 11. Endowment, Continued:

#### *Description of Amounts Classified as Permanently and Temporarily Restricted Net Assets*

	<u>2014</u>	<u>2013</u>
<b>Permanently Restricted Net Assets</b>		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation	\$ <u>40,631</u>	\$ <u>40,343</u>
<b>Temporarily Restricted Net Assets</b>		
Investments, temporarily restricted for future grants and operating expenditures	\$ <u>74,414</u>	\$ <u>61,911</u>

***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 targets, over a five-year moving period, to provide an average rate of return of approximately 8% annually (net of investment expenses) and to exceed the Consumer Price Index plus 5%. 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 Foundation 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 for which the Foundation is billed directly and are evaluated periodically for reasonableness by the Foundation. Investment expenses, net of agency endowment obligations, totaled \$586 (\$642 less \$56) for 2014 and \$526 (\$544 less \$18) for 2013.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 12. Main Office Building Fire:

In January, 2014, the Foundation experienced a fire in the western portion of the main office building. The resulting damage from the fire has left the building uninhabitable in its present state and as a result, the Foundation has relocated its operations to temporary office space until the building can be fully restored.

In addition, the Foundation conducted an analysis for potential impairment of the building and equipment associated with the main office building that was affected by the fire. Based on this analysis, the Foundation determined that it would not be able to fully recover the carrying amount of \$1,198 of the building and equipment damaged in the fire. The Foundation estimated the fair value of the building and equipment based on a broker's opinion of the market value of the building in fully restored condition of \$1,000 less estimated costs to complete repairs of \$450 resulting in a total estimated market value of \$550 in unrestored condition. In accordance with the guidance for the impairment of long-lived assets, the Foundation evaluated the building and equipment for recovery and as a result recorded an impairment charge of \$648 in 2014 to adjust the carrying value of the assets to the Foundation's estimate of its fair value. The impairment of property and equipment due to fire was determined as follows:

Carrying value of the building and equipment damaged in the fire	\$ 1,198
Less: Fair value of the building and equipment damaged in the fire	<u>550</u>
	<u>\$ 648</u>

Further, the Foundation is fully insured, less a \$1 deductible, for all damages and expenses incurred at the main office building as a result of the fire. As of March 31, 2014, the Foundation has submitted claims to its insurance company under its business continuation portion of the policy in the amount of \$86 and has incurred \$51 in fire related expenses. The fire related expenses were determined as follows:

Claims submitted to insurance	\$ 86
Less: Claims capitalized as equipment	19
Claims included in prepaid expenses	<u>16</u>
	<u>\$ 51</u>

The Foundation expects total claims to its insurance company under its property damage portion of the policy in the amount of \$450, the estimated cost to complete repairs of the main office building to bring it to a fully functional state.

## AKRON COMMUNITY FOUNDATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued for the years ended March 31, 2014 and 2013 (Amounts in thousands)

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#### 12. Main Office Building Fire, Continued:

In addition, the Foundation has received reimbursements of \$148 as of March 31, 2014. Reimbursements of gross insurance proceeds due to fire consist of the following at March 31, 2014:

Reimbursements under the business continuation portion of the policy	\$	48
Reimbursement under the property damage portion of the policy		<u>100</u>
	\$	<u>148</u>

Subsequent to March 31, 2014, the Foundation received an additional \$341 in reimbursement proceeds from its insurance company, which will be recognized in 2015. Gross insurance proceeds due to fire consist of the following subsequent to March 31, 2014:

Reimbursements under the business continuation portion of the policy	\$	53
Reimbursement under the property damage portion of the policy		<u>288</u>
	\$	<u>341</u>

In addition, the Foundation's insurance policy provides for reimbursement of certain, reasonable business interruption expenses incurred for the suspension of business operations due to the loss of use of property and equipment resulting from a covered cause of loss. The Foundation has not yet submitted claims for reimbursement under the business interruption portion of its policy and will do so at the conclusion of the restoration of the Foundation's main office building. However, ultimate resolution of the main office fire and all insurance claims is only expected to have an effect on cash flow of the Foundation of \$1, the cost of the deductible, and is not expected to have a material impact to the consolidated financial statements as a whole.