

The University of Akron
Research Foundation
Financial Statements
June 30, 2004 and June 2003



**Auditor of State
Betty Montgomery**

Board of Directors
University of Akron Research Foundation
Akron, Ohio

We have reviewed the Independent Auditor's Report of the University of Akron Research Foundation, Summit County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2003 through June 30, 2004. 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 Research Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 1, 2005

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The University of Akron Research Foundation

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Report of Independent Auditors

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

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The University of Akron Research Foundation ("Research Foundation") at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Research Foundation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2004 on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2004. That report 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.

PricewaterhouseCoopers LLP

September 15, 2004

The University of Akron Research Foundation

Statements of Financial Position At June 30, 2004 and 2003

	ASSETS	2004	2003
Cash and cash equivalents		\$ 1,808,536	\$ 989,973
Receivables		220,614	129,062
Investment		159,000	
Prepaid expenses		<u>114,985</u>	<u>112,500</u>
Total assets		<u>\$ 2,303,135</u>	<u>\$ 1,231,535</u>
 LIABILITIES AND NET ASSETS 			
Payables		\$ 416,504	\$ 296,777
Accrued expenses		29,683	32,866
Accrued professional fees		20,625	19,925
Deferred revenue		<u>990,408</u>	<u>525,999</u>
Total liabilities		<u>1,457,220</u>	<u>875,567</u>
Total net assets - unrestricted		<u>845,915</u>	<u>355,968</u>
Total liabilities and net assets		<u>\$ 2,303,135</u>	<u>\$ 1,231,535</u>

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

The University of Akron Research Foundation

Statements of Activities For the Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
License revenue:		
Royalties and fees	\$ 525,714	\$ 403,437
Patent reimbursement		11,839
Sponsored research	1,253,147	640,004
Value received for license	159,000	
Training revenue	50,000	
University support	52,942	
Interest income	13,191	5,265
Miscellaneous income	2,250	576
Total revenues	<u>2,056,244</u>	<u>1,061,121</u>
Expenses:		
Program services:		
Royalty distributions	199,761	156,103
Technical marketing	72,280	76,088
Allocated indirect costs	143,551	97,333
Direct costs	950,427	459,148
Bad debt expense	59,150	
Training fee	45,000	
University services	52,942	
Supporting services:		
Professional fees	21,857	26,675
Wage expense	18,148	
Insurance	828	4,617
Miscellaneous expense	2,353	1,908
Total expenses	<u>1,566,297</u>	<u>821,872</u>
Increase in net assets	489,947	239,249
Net assets - unrestricted, beginning of year	355,968	116,719
Net assets - unrestricted, end of year	<u>\$ 845,915</u>	<u>\$ 355,968</u>

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

The University of Akron Research Foundation

Statements of Cash Flow For the Years Ended June 30, 2004 and 2003

	2004	2003
Operating activities:		
Increase in net assets	\$ 489,947	\$ 239,249
Value received for license	(159,000)	-
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Receivables	(91,552)	(10,998)
Prepaid expenses	(2,484)	(112,500)
Payables and accrued expenses	117,243	181,896
Deferred revenue	464,409	410,985
	<u>818,563</u>	<u>708,632</u>
Net cash provided by operating activities	<u>818,563</u>	<u>708,632</u>
Cash, beginning of year	<u>989,973</u>	<u>281,341</u>
Cash, end of year	<u>\$ 1,808,536</u>	<u>\$ 989,973</u>

Non-cash transactions:

During the year ended June 30, 2004, the Research Foundation received an investment valued at \$159,000 in exchange for providing a license agreement.

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

The University of Akron Research Foundation

Notes to the Financial Statements

1. Organization

The University of Akron Research Foundation (Research Foundation) was incorporated on November 14, 2001 to promote, encourage and provide assistance to the research activities of The University of Akron (The University). The Research Foundation was granted tax exempt status according to the provisions of section 501 (c) 3 of the Internal Revenue Service on August 4, 2003.

The Research Foundation is governed by a nine member Board of Directors (Board). The Board includes The University President; The University Vice President for Research, two University directors designated by The University President, and five non-University members elected by the Board.

2. Significant Accounting Policies

Basis of Accounting

The financial statements of the Research Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Principal Revenues and Expenses

The Research Foundation's principal revenues are derived from sponsored research contracts and license agreements.

Sponsored research contracts are agreements for specific research, which is performed for a Sponsor by The University. The revenues are received by and maintained within the Research Foundation's accounting records while the direct costs associated with the contracts are incurred by and reflected within The University's accounting records. Each month, The University invoices the Research Foundation for the direct costs incurred under the research contracts. As of June 30, 2004 and 2003, the Research Foundation carried a liability of \$115,746 and \$118,479, respectively, to The University to cover the research activity (see Note 5).

The Research Foundation recognizes sponsored research contract revenues prorated based upon the direct costs incurred on each sponsored research contract. The prorated revenues closely approximate the percentage of work completed for each contract.

License revenues represent the royalties and license fees generated from the intellectual property owned by The University and commercialized and marketed by the Research Foundation. License fees, as opposed to royalties, payable to The University and inventors are recognized when earned. Minimum guaranteed royalties are recognized over the term for which the royalty minimums are guaranteed.

The University of Akron Research Foundation

Notes to the Financial Statements

Cash and Cash Equivalents

The Research Foundation considers all demand deposits and money market funds to be cash and cash equivalents. All cash and cash equivalents are on deposit with a single bank. Of the \$1,808,536 cash and cash equivalents, \$1,093,759 is considered designated for specific purposes. The \$1,093,759 consists of \$720,341 of sponsored research contract amounts received in advance of being earned and \$373,418 of payables and accruals to third parties under existing royalty, license and contract agreements.

Prepaid Expenses

The Research Foundation paid in advance, a royalty to two inventors, which has been recorded as a prepaid expense. Prepaid expense is charged to operations over the length of the contract. Prepaid insurance in the amount of \$2,484 was recorded at June 30, 2004.

Deferred Revenue

Cash received in advance of being earned is recorded as Deferred Revenue. In the subsequent period when the revenue recognition criteria are met, revenues are recognized and the Deferred Revenue is reduced accordingly.

University Support of the Research Foundation

University employees provide administrative and management functions for the Research Foundation. The University also furnishes the facilities occupied by the Research Foundation. The services and office space constitute in-kind contributions to the Research Foundation, the value of which are not reflected within these financial statements.

The direct costs related to sponsored research contracts on occasion exceed budget or are otherwise disallowed under the contract. In certain circumstances, those overages and disallowance have been paid by The University. During the fiscal years ended June 30, 2004 and 2003, The University paid \$8,349 and \$10,619, respectively of budget overages and disallowances related to research contracts recorded by the Research Foundation. The overages and disallowances are reflected in the financial statements only for the fiscal year ended 2004.

Cost sharing support in the amount of \$44,593 was provided by The University for three sponsored research contracts. There are two components of this cost sharing, in-kind support in the form of wages for principal investigators of \$42,553 and a cash match of \$2,040. These amounts are reflected in the financial statements as a contribution and as an expense when the services are provided.

Estimates

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

The University of Akron Research Foundation

Notes to the Financial Statements

Reclassification

Certain reclassifications have been made to the 2003 comparative information to conform with the 2004 presentation.

3. Receivables

Receivables consist of monies due the Research Foundation at June 30, 2004 and 2003 from sponsored research contracts, license and option agreements and for reimbursements of patent expenses by licensees.

	2004	2003
Sponsored Research	\$ 162,510	\$ 71,538
Licenses	50,673	48,333
Interest Receivable	1,511	
Patent Reimbursements	5,920	9,191
	<u>\$ 220,614</u>	<u>\$ 129,062</u>

4. Investment

During 2004 the Research Foundation received both a 2% equity stake in Millimed Holdings, Inc., a technology start-up company, and the potential for future royalty payments in exchange for a technology license held by the Research Foundation. The Research Foundation does not exercise significant influence over the operating and financial policies of the investee. The Research Foundation will account for this investment under the cost method.

5. Payables

The Research Foundation reimburses The University for direct and indirect costs incurred by the University related to sponsored research contracts managed by the Research Foundation. The University of Akron payable represents those direct and indirect costs incurred by The University before, and not paid by the Research Foundation until after, June 30, 2004 and 2003.

The Research Foundation is also permitted to recover indirect costs related to sponsored research contracts. A portion of those indirect costs are payable to the inventor's college or department. The Inventors and Colleges payables are undistributed indirect costs at June 30, 2004 and 2003.

The University of Akron Research Foundation

Notes to the Financial Statements

A portion of the indirect costs related to administrative departments is payable to the office of General Counsel, Finance and Research Services. The administrative departments payables are undistributed indirect costs at June 30, 2004 and 2003.

The Research Foundation's Guidelines and Procedures allocate 40% of royalties to the inventor/author (inventor) as personal income and 40% to the Research Foundation. The remaining 20% is maintained within Research Foundation accounts for research use by the inventor and the inventor's college and department. When applicable, 20% of the royalty received was paid to a technical marketer before any distributions were made. The Royalties payable represents undistributed royalties at June 30, 2004 and 2003.

	2004	2003
The University of Akron	\$ 115,746	\$ 118,479
Inventors and Colleges	158,024	68,452
Administrative Departments	93,396	40,267
Royalties	49,338	69,579
	<u>\$ 416,504</u>	<u>\$ 296,777</u>

6. Accrued Expenses

The accrued expenses are for known future expenses for the technical marketer and principal investigators based on the royalty receivable at June 30, 2004 and 2003.

	2004	2003
Accrued expenses - royalties	<u>\$ 29,683</u>	<u>\$ 32,866</u>

7. Accrued Professional Fees

The professional fees are for known services which have not been invoiced at the end of the year.

The University of Akron Research Foundation

Notes to the Financial Statements

8. Deferred Revenue

The Research Foundation receives advance payment for sponsored research contracts and license agreements which is recorded as deferred revenue. At June 30, 2004 and 2003, the Research Foundation had deferred revenue from the following sources:

	2004	2003
Sponsored Research	\$ 802,908	\$ 338,499
Licenses	187,500	187,500
	<u>\$ 990,408</u>	<u>\$ 525,999</u>

9. Concentration of Risk

The sponsored research contract and license agreement with Nitto Denko represents 27% of the Research Foundation's revenues for the fiscal year ended June 30, 2004.

**Report of Independent Auditors on Internal Control over Financial Reporting and on other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

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

We have audited the financial statements of The University of Akron Research Foundation ("Research Foundation"), a component unit of The University of Akron, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Research Foundation in a separate letter dated September 15, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research 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 that are required to be reported under *Government Auditing Standards*.

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

PricewaterhouseCoopers LLP

September 15, 2004



**Auditor of State
Betty Montgomery**

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UNIVERSITY OF AKRON RESEARCH FOUNDATION

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2005**