

# **The University of Akron Research Foundation**

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**Consolidated Financial Statements  
with Additional Information  
June 30, 2010 and 2009**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The University of Akron Research Foundation, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2009 through June 30, 2010. 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 12, 2011

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# **The University of Akron Research Foundation**

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## Independent Auditor's Report

To the Board of Directors  
The University of Akron Research Foundation

We have audited the accompanying consolidated statement of financial position of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of the University of Akron, as of June 30, 2010 and 2009 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated 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 in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Akron Research Foundation as of June 30, 2010 and 2009 and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010 on our consideration of The University of Akron 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on pages 20-21 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

Toledo, Ohio  
October 5, 2010

# The University of Akron Research Foundation

## Consolidated Statement of Financial Position

	June 30	
	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 2,545,919	\$ 2,264,743
Short-term investments (Notes 3 and 4)	8,278,749	3,381,488
Receivables - Net (Note 5)	1,046,093	761,845
Prepaid expenses and other	92,780	30,328
Deposits	-	10,458
Total current assets	11,963,541	6,448,862
Long-term investments (Note 3)	371,966	572,840
Property, plant, and equipment - Net (Note 6)	4,469,937	4,059,348
Total long-term assets	4,841,903	4,632,188
Total assets	<u>\$ 16,805,444</u>	<u>\$ 11,081,050</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 7)	\$ 2,096,002	\$ 1,902,788
Accrued expenses	260,563	165,821
Current portion of note payable (Note 9)	49,301	4,086
Fair value of interest rate swap (Notes 4 and 9)	434,550	306,877
Accrued professional fees	24,750	23,500
Deferred revenue (Note 8)	6,716,204	1,744,930
Total current liabilities	9,581,370	4,148,002
Long-term note payable (Note 9)	2,871,613	2,920,914
Total liabilities	12,452,983	7,068,916
<b>Net Assets - Unrestricted</b>	<u>4,352,461</u>	<u>4,012,134</u>
Total liabilities and net assets	<u>\$ 16,805,444</u>	<u>\$ 11,081,050</u>

# The University of Akron Research Foundation

## Consolidated Statement of Activities

	Year Ended June 30	
	2010	2009
<b>Revenue</b>		
Sponsored research	\$ 1,650,035	\$ 2,206,221
License royalties and fees	279,425	622,260
Polymer training	2,134,135	667,789
Rental income	515,791	503,380
Research funding	194,975	238,072
Interest income	108,202	148,346
Patent fee reimbursement	18,000	145,800
Experimental services	245,878	-
Unrealized gain (loss) on investments	224,997	(467,071)
Impairment of investment (Note 3)	-	(23,850)
Cost share support	104,236	53,158
Miscellaneous income	194,040	99,636
Total revenue	5,669,714	4,193,741
<b>Expense</b>		
Program services:		
Direct costs	1,103,752	1,566,511
Allocated indirect costs	486,302	365,638
Royalty distributions	153,666	291,410
Experimental services	227,903	-
Polymer training expense	1,221,231	531,315
Research support	497,564	569,522
Regional economic support	149,906	84,250
Bad debt expense	140,874	90,000
Cost share support	104,236	53,158
Total program services	4,085,434	3,551,804
Support services:		
Professional fees	25,834	24,098
Wage expense	110,820	90,053
Public relations	81,561	65,146
Depreciation and amortization expense	210,003	164,214
Insurance	5,608	9,527
Interest expense	266,714	319,905
Building operating expense	480,853	500,969
Office expense	62,560	41,245
Total support services	1,243,953	1,215,157
Total expenses	5,329,387	4,766,961
<b>Change in Net Assets</b>	340,327	(573,220)
<b>Net Assets - Beginning of year</b>	4,012,134	4,585,354
<b>Net Assets - End of year</b>	<b>\$ 4,352,461</b>	<b>\$ 4,012,134</b>



# The University of Akron Research Foundation

## Consolidated Statement of Cash Flows

	Year Ended June 30	
	2010	2009
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 340,327	\$ (573,220)
Adjustments to reconcile change in net assets to net cash from operating activities -		
Changes in operating assets and liabilities:		
Receivables	(425,122)	(99,863)
Prepaid expenses	(59,709)	107,157
Payables and accrued expenses	289,206	681,453
Deferred revenue	4,971,274	668,647
Impairment of investment	-	23,850
Depreciation and amortization expense	210,003	164,214
Bad debt expense	140,874	90,000
Unrealized (gain) loss on securities	(224,997)	467,071
Interest rate swap	127,673	165,826
Net cash provided by operating activities	5,369,529	1,695,135
<b>Cash Flows from Investing Activities</b>		
Net purchases of investments	(4,471,390)	(1,342,194)
Proceeds from equipment disposal	-	15,000
Purchase of equipment	(612,877)	(270,589)
Net cash used in investing activities	(5,084,267)	(1,597,783)
<b>Cash Flows from Financing Activities - Payments on debt</b>	(4,086)	-
<b>Increase in Cash and Cash Equivalents</b>	281,176	97,352
<b>Cash and Cash Equivalents - Beginning of year</b>	2,264,743	2,167,391
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,545,919</u>	<u>\$ 2,264,743</u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid for interest	<u>\$ 139,041</u>	<u>\$ 154,079</u>

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 1 - Organization

The University of Akron Research Foundation (the "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 11-member board of directors (the "Board"). The Board includes the University president, the University vice president for research, three University directors designated by the University president, and six non-University members elected by the Board.

Akron Innovation Campus, LLC (AIC), a wholly owned subsidiary of the Research Foundation, is consolidated in these statements. AIC was formed to hold two buildings and related property purchased on May 14, 2007.

### Note 2 - Summary of Significant Accounting Policies

**Basis of Accounting** - The consolidated 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.

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Research Foundation and its wholly owned subsidiary, AIC. All significant intercompany transactions have been eliminated in consolidation.

**Principal Revenue and Expenses** - The Research Foundation's principal revenue is derived from sponsored research contracts, polymer training, license agreements, and rental activity.

Sponsored research contracts are agreements for specific research, which is performed for a sponsor by the University. The revenue is 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.

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

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 2 - Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2009, the Research Foundation began partnering with industrial leaders in an international program to provide training, teaching, management, and other academic resources to advance polymer and materials education. The related polymer training revenue is recognized on the percentage of completion based on costs incurred to date. Funds are received in advance each quarter per the memo of understanding. These funds are included in deferred revenue on the consolidated statement of financial position and total \$5,812,749 and \$794,937 as of June 30, 2010 and 2009, respectively (see Note 8).

License revenue represents the royalties and license fees generated from the intellectual property owned by the University and commercialized and marketed by the Research Foundation. Royalties are recognized when earned, over the period of the license agreement. Minimum guaranteed royalties are recognized over the term for which the royalty minimums are guaranteed. License fees are recognized when the Research Foundation receives the payment.

Rental income received from the property held by AIC is recorded in the month rent is due.

**Cash and Cash Equivalents** - The Research Foundation considers all demand deposits, certificates of deposit, and money market funds with an original maturity of three months or less to be cash and cash equivalents.

**Concentration of Credit Risk** - The Research Foundation maintains cash balances at seven banks and the accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2010 and 2009. As of June 30, 2010 and 2009, the Research Foundation had uninsured deposits totaling approximately \$1,070,000 and \$1,042,000, respectively.

The Research Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

**Investments** - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair values of investments are based on quoted market prices. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Realized gains (losses) on investments are the difference between the proceeds received and the cost of investments sold. Net appreciation (depreciation) in the fair value of investments (including realized gains (losses) and unrealized gains (losses) and dividends and interest) is included in revenue in the consolidated statement of activities.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 2 - Summary of Significant Accounting Policies (Continued)

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

**Prepaid Expenses and Other** - The Research Foundation paid a portion of the royalties to inventors upon receipt. However, since royalties are allocated over the term covered by royalty, rather than upon receipt, the inventor payments are recorded as a prepaid expense. Prepaid insurance is also included in prepaid expenses.

**Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. The straight-line method of depreciation is used over the assets' estimated useful lives. The buildings' useful life is 39 years and equipment is depreciated over five or seven years. Tenant improvements are depreciated over the term of the lease, two to five years, and building improvement useful lives range from 10 to 20 years. The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

**Interest Rate Swap** - The Research Foundation is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported in the consolidated statement of financial position at fair value.

In particular, the Research Foundation has entered into an interest rate swap agreement maturing in May 2022. The swap is designated as a cash flow hedge used to manage the risk associated with interest rates on fixed-rate borrowings. For cash flow hedges, the effective portion of the gain or loss on the derivative instrument is included as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction is recognized in earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of June 30, 2010 and 2009, the Research Foundation held interest rate swaps with a total notional amount of \$1,950,000. Losses recognized on the interest rate swaps of \$127,673 and \$165,826 have been recognized in interest expense for the years ended June 30, 2010 and 2009, respectively.

# The University of Akron Research Foundation

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## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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, revenue is recognized and the deferred revenue is reduced accordingly.

**Board-designated Net Assets** - The Research Foundation maintains within its unrestricted net assets, a designated endowment from which the Research Foundation's board permits only distributions (grants) of earnings, which may include appreciation as well as income. The Richard Aynes Award Endowment of \$6,250 is designated for a School of Law writing competition scholarship as of June 30, 2010 and 2009.

**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 is not reflected within these financial statements.

For the fiscal years ended June 30, 2010 and 2009, in-kind support in the amount of \$104,236 and \$53,158, respectively, was provided by the University for sponsored research contracts. This is 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including October 5, 2010, which is the date the consolidated financial statements were available to be issued.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 3 - Investments

Investments at June 30, 2010 and 2009 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	2010	2009
Marketable securities:		
Money market mutual funds	\$ 7,189,715	\$ 2,276,841
Stock equities	637,798	629,647
Total marketable securities	7,827,513	2,906,488
Alternative investments:		
Closely held stock and private equity (cost method)	290,490	290,490
Closely held stock and private equity (equity method)	81,476	32,350
Total alternative investments	371,966	322,840
Certificates of deposit	451,236	725,000
Total investments	<u>\$ 8,650,715</u>	<u>\$ 3,954,328</u>

Marketable securities are invested in two accounts with Legacy Strategic Asset Management in accordance with the Research Foundation's investment policy and are stated at fair value. Legacy Strategic Asset Management is a subsidiary of Wachovia Securities and all securities are held by Wells Fargo Advisors at June 30, 2010 and 2009. Fluctuations in fair value, as well as gains or losses on sales of securities, are recognized in the consolidated statement of activities. Earnings on invested amounts are retained in the fund for reinvestment until such time as the Research Foundation authorizes delivery of all or part of the funds to or for the benefit of the University.

The Research Foundation does not exercise significant influence over the operating and financial policies of its alternative investments. These investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors is considered when determining if a decline in fair value below book value is other than temporary, including, among others, the financial condition and prospects of the investee.

# **The University of Akron Research Foundation**

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## **Notes to Consolidated Financial Statements June 30, 2010 and 2009**

### **Note 3 - Investments (Continued)**

During the year ended June 30, 2009, an investee in closely held stock terminated its license agreement with the Research Foundation and a settlement was agreed to for the license fees and patent costs. The balance was written off and is included as bad debt expense. The investee dissolved and the remainder of the investment was written off. As a result, it was determined that the equity value should also be reduced and the change is reported as an investment impairment on the consolidated statement of activities. Impairment has been recognized as of June 30, 2009 as the decline in value is deemed other than temporary. There has been no other impairment on investments as of June 30, 2010.

### **Note 4 - Fair Value Measurement**

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

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

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

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

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Research Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 4 - Fair Value Measurement (Continued)

The following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and 2009, and the valuation techniques used by the Research Foundation to determine those fair values.

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

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2010

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2010
<b>Assets</b>				
Money market mutual funds:				
Federated Short-Term Income	\$ 1,205,695	\$ -	\$ -	\$ 1,205,695
Goldman Sachs Financial	1,680,940	-	-	1,680,940
Government Obligations	1,700,481	-	-	1,700,481
PIMCO Securities	757,895	-	-	757,895
Other money market mutual funds	1,844,704	-	-	1,844,704
Stock equities	637,798	-	-	637,798
<b>Liabilities</b> - Interest rate swap	-	(434,550)	-	(434,550)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2009

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2009
<b>Assets</b>				
Money market mutual funds:				
Goldman Sachs Financial	\$ 284,155	\$ -	\$ -	\$ 284,155
Government obligations	200,000	-	-	200,000
Other money market mutual funds	1,792,686	-	-	1,792,686
Stock equities	629,647	-	-	629,647
<b>Liabilities</b> - Interest rate swap	-	(306,877)	-	(306,877)



# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 5 - Receivables

Receivables consist of amounts due to the Research Foundation at June 30, 2010 and 2009 from sponsored research contracts, license, rents, and for reimbursements of patent expenses by licensees. After known uncollectible accounts are deducted, 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

	2010	2009
Sponsored research	\$ 810,990	\$ 581,232
Licenses	169,182	55,620
Rents	17,093	11,180
Interest receivable	-	27,432
Other receivables	248,828	196,381
Allowance for doubtful accounts	<u>(200,000)</u>	<u>(110,000)</u>
Total	<u>\$ 1,046,093</u>	<u>\$ 761,845</u>

### Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2010	2009
Land	\$ 290,607	\$ 290,607
Buildings and building improvements	4,089,254	3,916,942
Equipment	<u>686,792</u>	<u>246,227</u>
Total property, plant, and equipment	5,066,653	4,453,776
Less accumulated depreciation	<u>596,716</u>	<u>394,428</u>
Net carrying amount	<u>\$ 4,469,937</u>	<u>\$ 4,059,348</u>

### Note 7 - Accounts Payable

The Research Foundation reimburses the University for direct and certain indirect costs incurred by the University related to sponsored research contracts managed by the Research Foundation. The balance incurred by the University before year end is included in the payable to the University of Akron at June 30, 2010 and 2009.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 7 - Accounts Payable (Continued)

The Research Foundation is also permitted to recover indirect costs related to sponsored research contracts. A portion of those indirect costs is payable to the inventor's college or department for use by inventors and colleges. The undistributed indirect costs at June 30, 2010 and 2009 are included in the payable to the University of Akron.

	2010	2009
The University of Akron	\$ 1,596,028	\$ 1,812,978
Other payables	499,974	89,810
Total	<u>\$ 2,096,002</u>	<u>\$ 1,902,788</u>

### Note 8 - Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts, a polymer training program, and license agreements, which is recorded as deferred revenue. At June 30, 2010 and 2009, the Research Foundation had deferred revenue from the following sources:

	2010	2009
Sponsored research	\$ 840,029	\$ 932,404
Polymer training	5,812,749	794,937
Licenses	41,364	5,000
Advance rent	22,062	12,589
Total	<u>\$ 6,716,204</u>	<u>\$ 1,744,930</u>

### Note 9 - Note Payable

AIC entered into a \$2,925,000, 15-year note with CharterOne Bank on May 14, 2007 for the purchase of two buildings on Wolf Ledges in Akron, Ohio. AIC entered into an interest rate swap agreement ("swap") with a swap counterparty on a notional amount equal to \$1,950,000. The interest rate for this portion of the debt is fixed at 6.39 percent. The fair value of the interest rate swap agreement is a liability of \$434,550 and \$306,877 at June 30, 2010 and 2009, respectively.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 9 - Note Payable (Continued)

The interest rate on the variable portion of the loan, or \$975,000, is based on the one-month LIBOR plus 1 percent, an effective rate of 1.35 percent and 1.32 percent at June 30, 2010 and 2009, respectively. The loan required interest-only payments until June 2010, when the first principal payment was due. Under the terms of the agreement, monthly principal payments ranging from \$4,086 to \$8,246 are due through May 2022, when the remaining unpaid principal balance is due.

The note payable is collateralized by certain real property, all personal property, and future rents of AIC. The Research Foundation has guaranteed the loan.

Future maturities of debt for the years ending June 30 are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2011	\$ 49,301
2012	52,547
2013	56,010
2014	59,702
2015	63,636
Thereafter	<u>2,639,718</u>
Total	<u>\$ 2,920,914</u>

Under the agreement with the bank, the Research Foundation is subject to various financial covenants. As of June 30, 2010, the Research Foundation was in compliance with all such covenants.

### Note 10 - Operating Lease Rentals

AIC has operating lease agreements with 20 tenants at the two professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through December 2014. As of June 30, 2010 and 2009, leased buildings and building improvements are recorded at a cost of \$4,089,254 and \$3,916,942, respectively, with accumulated depreciation of \$381,237 and \$229,091, respectively.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2010 and 2009

### Note 10 - Operating Lease Rentals (Continued)

As of June 30, 2010, the minimum future rentals on the non-cancellable portion of the operating lease rentals aggregate \$1,624,229 and are due in the five succeeding years as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2011	\$ 576,228
2012	411,809
2013	308,485
2014	233,857
2015	<u>93,850</u>
Total	<u>\$ 1,624,229</u>

### Note 11 - Related Parties

The Research Foundation is a minority stockholder in University Innovation Ventures (UIV). The Research Foundation has the contractual agreement with UIV to perform services at a stated price. For the years ended June 30, 2010 and 2009, the Research Foundation paid \$360,053 and \$356,088, respectively, to UIV for materials investigation. At June 30, 2010 and 2009, a receivable of \$17,639 has been recorded for research activities being conducted by UIV. Additionally, at June 30, 2010 and 2009, a payable of \$0 and \$41,375, respectively, has been recorded for research activities being conducted by UIV.

University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2010 and 2009, the Research Foundation authorized distributions to the University in the amount of \$1,590,054 and \$1,953,340, respectively.

## **Additional Information**

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To the Board of Directors  
The University of Akron Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation as of and for the year ended June 30, 2010. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the basic consolidated financial statements. The information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Plante & Moran, PLLC*

Toledo, Ohio  
October 5, 2010

# The University of Akron Research Foundation

## Consolidating Statement of Financial Position June 30, 2010

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 1,932,375	\$ 613,544	\$ -	\$ 2,545,919
Short-term investments	8,278,749	-	-	8,278,749
Receivables - Net	1,029,000	24,290	(7,197)	1,046,093
Prepaid expenses and other	68,769	24,011	-	92,780
Total current assets	11,308,893	661,845	(7,197)	11,963,541
Long-term investments	371,966	-	-	371,966
Investment in subsidiary	2,022,514	-	(2,022,514)	-
Property, plant, and equipment - Net	471,313	3,998,624	-	4,469,937
Total long-term assets	2,865,793	3,998,624	(2,022,514)	4,841,903
Total assets	<u>\$ 14,174,686</u>	<u>\$ 4,660,469</u>	<u>\$ (2,029,711)</u>	<u>\$ 16,805,444</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,010,078	\$ 93,121	\$ (7,197)	\$ 2,096,002
Accrued expenses	178,199	82,364	-	260,563
Current portion of note payable	-	49,301	-	49,301
Fair value of interest rate swap	-	434,550	-	434,550
Accrued professional fees	24,750	-	-	24,750
Deferred revenue	6,694,142	22,062	-	6,716,204
Total current liabilities	8,907,169	681,398	(7,197)	9,581,370
Long-term note payable	-	2,871,613	-	2,871,613
Total	8,907,169	3,553,011	(7,197)	12,452,983
Member contributions	-	2,022,514	(2,022,514)	-
Total liabilities	8,907,169	5,575,525	(2,029,711)	12,452,983
<b>Net Assets - Unrestricted</b>	<u>5,267,517</u>	<u>(915,056)</u>	<u>-</u>	<u>4,352,461</u>
Total liabilities and net assets	<u>\$ 14,174,686</u>	<u>\$ 4,660,469</u>	<u>\$ (2,029,711)</u>	<u>\$ 16,805,444</u>

# The University of Akron Research Foundation

## Consolidating Statement of Activities Year Ended June 30, 2010

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
<b>Revenue</b>				
Sponsored research	\$ 1,650,035	\$ -	\$ -	\$ 1,650,035
License royalties and fees	279,425	-	-	279,425
Polymer training	2,134,135	-	-	2,134,135
Rental income	-	663,445	(147,654)	515,791
Research funding	194,975	-	-	194,975
Interest income	103,494	4,708	-	108,202
Patent fee reimbursement	18,000	-	-	18,000
Experimental services	245,878	-	-	245,878
Unrealized gain on investments	224,997	-	-	224,997
Cost share support	104,236	-	-	104,236
Miscellaneous income	191,268	2,772	-	194,040
Total revenue	5,146,443	670,925	(147,654)	5,669,714
<b>Expenses</b>				
Direct costs	1,103,752	-	-	1,103,752
Allocated indirect costs	486,302	-	-	486,302
Royalty distributions	153,666	-	-	153,666
Experimental services	227,903	-	-	227,903
Polmer training expense	1,221,231	-	-	1,221,231
Research support	497,564	-	-	497,564
Regional economic support	149,906	-	-	149,906
Bad debt expense	140,874	-	-	140,874
Cost share support	104,236	-	-	104,236
Professional fees	25,834	-	-	25,834
Wage expense	110,820	-	-	110,820
Public relations	81,561	-	-	81,561
Depreciation and amortization expense	50,142	159,861	-	210,003
Insurance	5,608	-	-	5,608
Interest expense	-	266,714	-	266,714
Building operating expense	147,654	480,853	(147,654)	480,853
Office expense	44,052	18,508	-	62,560
Total expenses	4,551,105	925,936	(147,654)	5,329,387
<b>Change in Net Assets</b>	595,338	(255,011)	-	340,327
<b>Net Assets (Deficit) - Unrestricted - Beginning of year</b>	4,672,179	(660,045)	-	4,012,134
<b>Net Assets (Deficit) - Unrestricted - End of year</b>	<u>\$ 5,267,517</u>	<u>\$ (915,056)</u>	<u>\$ -</u>	<u>\$ 4,352,461</u>



Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors  
The University of Akron Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation, a discretely presented component unit of the University of Akron, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 5, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

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

To the Board of Directors  
The University of Akron Research Foundation

### **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 or other matters that are required to be reported under *Government Auditing Standards*.

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

*Plante & Moran, PLLC*

Toledo, Ohio  
October 5, 2010



# Dave Yost • Auditor of State

**THE 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  
JANUARY 25, 2011**