

**The University of Akron**  
**Research Foundation**  
**Financial Statements**  
**June 30, 2006 and June 2005**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
The University of Akron Research Foundation  
302 Buchtel Common  
Akron, Ohio 44325-6205

We have reviewed the *Report of Independent Auditors* of The University of Akron Research Foundation, Summit County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2005 through June 30, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 2, 2007

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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 present fairly, in all material respects, the financial position of The University of Akron Research Foundation ("Research Foundation") at June 30, 2006 and 2005, 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 November 27, 2006 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. 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 page 10 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.

*PricewaterhouseCoopers LLP*

November 27, 2006

# The University of Akron Research Foundation

## Statements of Financial Position At June 30, 2006 and 2005

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	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 688,719	\$ 1,788,443
Receivables, net of allowance of \$40,000 in 2006 and \$0 in 2005	835,536	206,517
Prepaid expenses	149,360	144,240
Investments at cost	217,296	210,000
Other investments	2,850,000	849,903
Equipment, net of accumulated depreciation of \$77,224 in 2006 and \$30,545 in 2005	238,684	122,180
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Total assets	\$ 4,979,595	\$ 3,321,283
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<b>Liabilities and Net Assets</b>		
Payables	\$ 1,277,263	\$ 630,303
Accrued expenses	37,837	24,374
Accrued professional fees	22,100	21,350
Deferred revenue	1,157,086	1,131,514
	<hr/>	<hr/>
Total liabilities	2,494,286	1,807,541
	<hr/>	<hr/>
Total net assets - unrestricted	2,485,309	1,513,742
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Total liabilities and net assets	\$ 4,979,595	\$ 3,321,283
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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, 2006 and 2005

	2006	2005
Revenues:		
License royalties and fees	\$ 1,962,295	\$ 579,262
Sponsored research	1,804,251	1,744,546
Value received for license	62,296	50,000
Pilot plant income	88,341	45,578
Research funding	112,569	-
Cost share support	48,230	80,325
Interest income	117,472	48,520
Contributions	80,000	173,373
Miscellaneous income	135,782	1,137
Total revenues	<u>4,411,236</u>	<u>2,722,741</u>
Expenses:		
Program services:		
Royalty distributions	840,426	201,419
Technical marketing	269,127	72,998
Allocated indirect costs	188,631	248,598
Direct costs	1,390,109	1,266,301
Pilot plant expense	79,349	59,052
Research support	91,732	-
Support of SBDC	127,722	-
Bad debt expense	116,640	19,424
Cost share support	48,230	80,325
License impairment	80,000	-
Supporting services:		
Professional fees	40,726	26,517
Wage expense	45,906	24,395
Public relations	55,529	16,657
Depreciation expense	46,679	30,545
Insurance	4,572	3,313
Office expense	13,295	-
Miscellaneous expense	996	5,370
Total expenses	<u>3,439,669</u>	<u>2,054,914</u>
Change in net assets	971,567	667,827
Net assets - unrestricted, beginning of year	<u>1,513,742</u>	<u>845,915</u>
Net assets - unrestricted, end of year	<u>\$ 2,485,309</u>	<u>\$ 1,513,742</u>

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

# The University of Akron Research Foundation

## Statements of Cash Flows For the Years Ended June 30, 2006 and 2005

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	2006	2005
Operating activities:		
Change in net assets	\$ 971,567	\$ 667,827
Value received for license	(60,000)	(50,000)
Donation of equipment	(120,000)	(152,725)
Depreciation expense	46,679	30,545
License impairment	80,000	-
Share in net income of equity investment	(2,296)	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Receivables	(629,020)	13,098
Prepaid expenses	(5,120)	(29,255)
Payables and accrued expenses	661,173	209,215
Deferred revenue	25,572	141,105
Net cash provided by operating activities	<u>968,556</u>	<u>829,810</u>
Investing activities:		
Investments purchased	(2,000,097)	(849,903)
Additional investment	(25,000)	-
Purchase of equipment	(43,183)	-
Net cash used in investing activities:	<u>(2,068,280)</u>	<u>(849,903)</u>
Net decrease in cash and cash equivalents	(1,099,724)	(20,093)
Cash and Cash Equivalents, beginning of year	<u>1,788,443</u>	<u>1,808,536</u>
Cash and Cash Equivalents, end of year	<u>\$ 688,719</u>	<u>\$ 1,788,443</u>

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

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### 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, 2006 and 2005, the Research Foundation carried a liability of \$447,477 and \$150,828 respectively to The University for this activity (see Note 7).

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. 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.

#### **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. Of the \$688,719 cash and Certificates of deposit of \$2,850,000, \$2,010,427 is considered designated for specific purposes. The \$2,010,427 consists of \$673,227 of sponsored research contract amounts received in advance of being earned and \$1,337,200 of payables and accruals to third parties under existing royalty, license and contract agreements.

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### **Prepaid Expenses**

The Research Foundation paid a portion of the royalties to two 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.

### **Depreciation**

Equipment, generally has estimated life of 5 years is depreciated over the useful life using the straight line method of depreciation.

### **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, 2006 and 2005, The University paid \$218 and \$5,266, 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.

For the fiscal years ended June 30, 2006 and 2005, in-kind support in the amount of \$48,012 and \$75,059 was provided by the University for sponsored research contracts. This support was in the form of wages for the principal investigators and cost share provided for equipment. 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 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

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### 3. Receivables

Receivables consist of monies due the Research Foundation at June 30, 2006 and 2005 from sponsored research contracts, license and option agreements and for reimbursements of patent expenses by licensees. An allowance account was established for doubtful receivables in 2006. After known uncollectible accounts are deducted, 5% of the receivable balance will be allocated to an allowance for doubtful accounts.

	2006	2005
Sponsored research	\$ 131,845	\$ 98,739
Licenses	546,032	75,329
Interest receivable	56,781	8,432
Other receivables	140,878	24,017
Allowance for doubtful accounts	<u>(40,000)</u>	<u>-</u>
	<u>\$ 835,536</u>	<u>\$ 206,517</u>

### 4. Investments At Cost

The Research Foundation holds cost-based long-term investments consisting of common equity interests in the companies listed below. During 2006 the Research Foundation received shares in Mempro, a ceramics filtration start up company, for an exclusive option to license the University's technology. The license agreement with NO Labs was terminated in 2006, for failure to pay royalties. The value is reported as \$0 at June 30, 2006. The Research Foundation invested \$25,000 in Greater Akron Investment Partners, LLC for a quarter of a unit in the limited liability company which operates Targetech Innovation Center, a business incubator. The Research Foundation does not exercise significant influence over the operating and financial policies of the investees. All such investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors are 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.

	2006	2005
Millimed Holdings, Inc.	\$ 159,000	\$ 159,000
NO Labs AB	-	50,000
Mempro Ceramics Corporation	30,000	-
Greater Akron Investment Partners, LLC	25,000	-
University Innovation Ventures (UIV)	<u>3,296</u>	<u>1,000</u>
	<u>\$ 217,296</u>	<u>\$ 210,000</u>

Chartered in May 2005, UIV's mission is to further the University's efforts to form partnerships with regional organizations and develop technology commercialization. In January 2006, UIV issued shares to the original founders of the company for consideration of their service to the company; each now owns 51 shares or 25.25% of UIV. The Research Foundation owns 100 shares or 49.5% of UIV. This investment is reported under the equity method. The value of this equity is \$3,296 which includes the original investment of \$1,000 plus, \$2,296, our 49.5% share of UIV's operations for the year ended June 30, 2006.

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### 5. Other Investments

Other Investments as of June 30, 2006 and 2005 consists of:

	2006	2005
Certificate of Deposit, Maturity date 9/27/05, interest rate 2.97%	\$ -	\$ 200,000
Federal Home Loan Mort. Corp, Maturity date 11/15/05	-	199,903
Certificate of Deposit, Maturity date 12/23/05, interest rate 3.21%	-	200,000
Certificate of Deposit, Maturity date 2/05/06, interest rate 3.55%	-	250,000
Certificate of Deposit, Maturity date 9/04/06, interest rate 4.55%	300,000	-
Certificate of Deposit, Maturity date 12/22/06, interest rate 4.64%	200,000	-
Certificate of Deposit, Maturity date 10/17/06, interest rate 4.85%	350,000	-
Certificate of Deposit, Maturity date 01/16/07, interest rate 4.64%	300,000	-
Certificate of Deposit, Maturity date 02/05/07, interest rate 4.40%	200,000	-
Certificate of Deposit, Maturity date 8/09/06, interest rate 4.65%	350,000	-
Certificate of Deposit, Maturity date 10/09/06, interest rate 4.89%	650,000	-
Certificate of Deposit, Maturity date 2/08/07, interest rate 5.00%	500,000	-
	<u>\$ 2,850,000</u>	<u>\$ 849,903</u>

### 6. Equipment

The Goodyear Tire & Rubber Company donated equipment with a fair value of \$120,000 to the Research Foundation. An additional \$13,000 was paid to install the lab equipment. To help facilitate a research contract the Research Foundation purchased a spectrometer for \$28,343.

All other equipment is housed at the pilot plant. The fixed assets will be depreciated over the remaining life of the equipment using the straight line method.

### 7. 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, 2006 and 2005.

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

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### **Payables Continued:**

department for use by inventors and colleges. The inventors and colleges payables are undistributed indirect costs at June 30, 2006 and 2005.

Portions of the indirect costs related to administrative departments are payable to the offices of General Counsel, Finance and Research Services. The administrative departments payables are undistributed indirect costs at June 30, 2006 and 2005.

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, 2006 and 2005.

	<b>2006</b>	<b>2005</b>
The University of Akron	\$ 447,477	\$ 150,828
Inventors & colleges	190,199	209,660
Administrative departments	243,410	170,587
Other payables	232,751	3,619
Royalties	163,427	95,609
	<u>\$ 1,277,263</u>	<u>\$ 630,303</u>

### **8. Accrued Expenses**

The accrued expenses June 30, 2006 and 2005 are for known future expenses for the technical marketer and principal investigators based on the royalty receivable at June 30, 2006 and 2005.

### **9. Accrued Professional Fees**

The professional fees are for known services related to fiscal year 2006, which have not been invoiced at June 30, 2006.

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### 10. Deferred Revenue

The Research Foundation receives advance payment for sponsored research contracts and license agreements which payment is recorded as deferred revenue. At June 30, 2006 and 2005, the Research Foundation had deferred revenue from the following sources:

	<b>2006</b>	<b>2005</b>
Sponsored Research	\$ 913,336	\$ 890,711
Licenses	<u>243,750</u>	<u>240,803</u>
	<u>\$ 1,157,086</u>	<u>\$ 1,131,514</u>

### 11. Pilot Plant

The Research Foundation maintains a pilot plant (lab facilities) on Gilchrist Road in Akron, Ohio. A nominal fee is charged to start up enterprises for use of the lab. Related expenses for managerial services and supplies are recorded on the Statement of Activities. In-kind support for the use of the leased space rent free is provided by Omnova Solutions, Inc. In-kind rent in the amount of \$42,000 is included in Pilot Plant Income and Expense on the Statement of Activities.

**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, 2006, and have issued our report thereon dated November 27, 2006. 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.

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*

November 27, 2006



Mary Taylor, CPA  
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  
MARCH 15, 2007