

# **The University of Akron Research Foundation**

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**Consolidated Financial Statements  
with Additional Information  
June 30, 2013 and 2012**





# 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, 2012 through June 30, 2013. 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

December 31, 2013

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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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of The University of Akron, which comprise the consolidated statement of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and 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 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 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 Research Foundation'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 Research Foundation'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.

To the Board of Directors  
The University of Akron Research Foundation

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Research Foundation as of June 30, 2013 and 2012 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the consolidated financial statements of The University of Akron Research Foundation taken as a whole. The consolidating information, as identified on pages 19 and 20, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013 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, 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 pages 21 and 22 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Research Foundation's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 9, 2013



# The University of Akron Research Foundation

## Consolidated Statement of Financial Position June 30, 2013 and 2012

	June 30	
	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 1,450,904	\$ 1,734,935
Short-term investments (Notes 3 and 4)	4,875,177	4,126,553
Receivables - Net (Note 5)	2,266,822	1,153,384
Prepaid expenses and other	69,500	36,771
Total current assets	8,662,403	7,051,643
Long-term investments (Note 3)	250,735	380,120
Property, plant, and equipment - Net (Note 6)	6,455,996	5,800,862
Total long-term assets	6,706,731	6,180,982
Total assets	<b>\$ 15,369,134</b>	<b>\$ 13,232,625</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 7)	\$ 2,851,557	\$ 2,163,984
Accrued expenses	257,233	332,036
Accrued professional fees	26,000	27,500
Deferred revenue (Note 8)	2,683,042	2,268,299
Current portion of note payable (Note 9)	59,702	56,010
Fair value of interest rate swap (Notes 4 and 9)	429,948	609,351
Total current liabilities	6,307,482	5,457,180
Long-term note payable (Note 9)	2,703,660	2,763,056
Total liabilities	9,011,142	8,220,236
<b>Net Assets - Unrestricted</b>	6,357,992	5,012,389
Total liabilities and net assets	<b>\$ 15,369,134</b>	<b>\$ 13,232,625</b>

# The University of Akron Research Foundation

## Consolidated Statement of Activities June 30, 2013 and 2012

	Year Ended June 30	
	2013	2012
<b>Revenue</b>		
Polymer training	\$ 4,584,856	\$ 4,955,681
Sponsored research	2,624,202	2,671,786
Experimental services	1,120,407	765,552
Rental income	574,401	531,480
License royalties and fees	271,944	256,156
Research funding	452,577	173,700
Interest income	128,115	164,375
Patent fee reimbursement	22,842	4,430
Unrealized gain (loss) on investments	315,489	(185,631)
Impairment of investment (Note 3)	(120,000)	-
Donated equipment (Note 6)	973,000	650,000
Cost share support	29,794	199,136
Miscellaneous income	296,007	278,129
Total revenue	11,273,634	10,464,794
<b>Expenses</b>		
Program services:		
Polymer training expense	3,827,603	4,073,890
Direct costs	2,009,568	2,296,161
Allocated indirect costs	509,721	552,351
Research support	792,619	544,774
Experimental services	1,023,990	643,199
Royalty distributions	90,824	106,171
Bad debt expense	133,554	110,826
Depreciation and amortization expense	106,739	100,307
Cost share support	29,794	199,136
Total program services	8,524,412	8,626,815
Support services:		
Wage and benefit expense	354,800	183,259
Building operating expense	508,869	517,064
Interest (income) expense - Change in swap value (Note 9)	(179,403)	238,287
Interest expense	132,047	135,245
Public relations	97,173	116,577
Depreciation and amortization expense	346,223	282,043
Professional fees	42,946	40,309
Office expense	65,484	82,555
Donation	9,900	-
Insurance	25,580	8,507
Total support services	1,403,619	1,603,846
Total expenses	9,928,031	10,230,661
<b>Change in Net Assets</b>	1,345,603	234,133
<b>Net Assets - Beginning of year</b>	5,012,389	4,778,256
<b>Net Assets - End of year</b>	<b>\$ 6,357,992</b>	<b>\$ 5,012,389</b>

# The University of Akron Research Foundation

## Consolidated Statement of Cash Flows June 30, 2013 and 2012

	Year Ended June 30	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,345,603	\$ 234,133
Impairment of investment	120,000	-
Depreciation and amortization expense	452,962	382,350
Bad debt expense	133,554	110,826
Unrealized (gain) loss on securities	(315,489)	185,631
Change in interest rate swap	(179,403)	238,287
Donation of equipment	(973,000)	(650,000)
Adjustments to reconcile change in net assets to net cash from operating activities - Changes in operating assets and liabilities:		
Receivables	(1,246,992)	(54,605)
Prepaid expenses	(41,490)	(25,353)
Payables and accrued expenses	611,270	(205,038)
Deferred revenue	414,743	(2,044,364)
Net cash provided by (used in) operating activities	321,758	(1,828,133)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(423,750)	-
Sale of investments	-	1,591,373
Purchase of buildings and equipment	(126,335)	(276,455)
Net cash (used in) provided by investing activities	(550,085)	1,314,918
<b>Cash Flows from Financing Activities - Payments on debt</b>	(55,704)	(52,547)
<b>Decrease in Cash and Cash Equivalents</b>	(284,031)	(565,762)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,734,935	2,300,697
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,450,904</u>	<u>\$ 1,734,935</u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid for interest	<u>\$ 132,153</u>	<u>\$ 134,534</u>

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### 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 an eleven-member board of directors (the "Board"). The Board includes the University president, the University vice president for research, and three University directors whose appointments are directed by the University trustees and made by the University president. There are six non-University members elected by the Board.

The Research Foundation has three wholly owned subsidiaries at June 30, 2013. Akron Innovation Campus LLC (AIC), Akron Surface Technologies, Inc (ASTI) and PolyMedTec, Inc (PMT), are consolidated in these statements.

AIC was formed to hold two buildings and related property purchased on May 14, 2007.

ASTI was formed as a C Corporation from a collaboration between the Research Foundation and a local manufacturing company and was created to provide engineered services to new markets. During fiscal year 2013, the Research Foundation provided the operating capital required to start the company and is the sole stockholder as of June 30, 2013.

PMT was formed as a C Corporation by the Research Foundation to develop wound closure adhesives based on the research of University faculty. During fiscal year 2013, the Research Foundation provided the operating capital required to start the company and is the sole stockholder as of the June 30, 2013.

### 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 subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

**Principal Revenues and Expenses** - The Research Foundation's principal revenues are derived from the Polymer training program, sponsored research contracts, and experimental services agreements.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

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.

The Research Foundation recognizes sponsored research contract revenues 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.

Since the year ended June 30, 2009, the Research Foundation has partnered with the Saudi Basic Industries Corporation and affiliates of ExxonMobil Chemical, the Technical Vocational Training Corporation, and the Saudi National Industrial Clusters Development Program in the Kingdom of Saudi Arabia to establish an elastomer technology vocational training institute. The Research Foundation's agreement, extending to August 31, 2015, provides for the training, teaching, management, and other academic resources to advance polymer and materials education through the institute. 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. These funds are included in deferred revenue on the consolidated statement of financial position and total \$1,293,847 and \$959,752 as of June 30, 2013 and 2012, respectively (see Note 8).

Experimental services income is recognized on the accrual basis for services performed for corporate customers at labs at the University under three-party agreements.

Rental income received 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 five banks in accounts which are insured by the Federal Deposit Insurance Corporation. These cash deposits may, at times, exceed the federally insured limits. The Research Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to independently insure all cash deposits. The Research Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash.

# The University of Akron Research Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

**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.

**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 possible that changes in the value 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** - Insurance and advertising expenses were paid in advance. The expenses related to the current fiscal year are recognized as expense and the balance is reflected in prepaid expenses on the consolidated statement of financial position.

**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; equipment is depreciated over five years. Tenant improvements are depreciated over the term of the lease 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. Contributed equipment is recorded at fair market value.

**Fair Value of Financial Instruments** - The estimated fair value amounts have been determined by the Research Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Research Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. All investment securities are carried at fair value in the financial statements. The fair values of short-term financial instruments, including cash equivalents, accounts receivable, and accounts payable approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments. The inputs are based upon terms in contractual agreements. The fair values of these financial instruments are determined using Level 2 inputs.

# The University of Akron Research Foundation

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## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

**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.

**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.

**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 for the periods ended June 30, 2013 and 2012. There were no other board-designated net assets as of June 30, 2013 and 2012.

**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 values of which are not reflected within these consolidated financial statements.

For the fiscal years ended June 30, 2013 and 2012, in-kind support in the amount of \$29,794 and \$199,136, respectively, was provided by the University for sponsored research contracts. This support was in the form of wages for the principal investigators and cost sharing provided for equipment. This is reflected in the consolidated financial statements as a contribution and as an expense.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

**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.

**Accounting for Uncertainties in Income Taxes** - Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Research Foundation and recognize a tax liability if the Research Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Research Foundation and has concluded that as of June 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Research Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

**Subsequent Events** - The consolidated financial statements and related disclosures included evaluation of events up through and including October 9, 2013, which is the date the consolidated financial statements were available to be issued.

### Note 3 - Investments

Investments at June 30, 2013 and 2012 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	<u>2013</u>	<u>2012</u>
Marketable securities:		
Money market mutual funds	\$ -	\$ 451,015
Stock equities and mutual funds	<u>4,875,177</u>	<u>3,675,538</u>
Total marketable securities	4,875,177	4,126,553
Alternative investments:		
Closely held stock and private equity (cost method)	150,245	159,630
Closely held stock and private equity (equity method)	<u>100,490</u>	<u>220,490</u>
Total alternative investments	<u>250,735</u>	<u>380,120</u>
Total investments	<u>\$ 5,125,912</u>	<u>\$ 4,506,673</u>



# **The University of Akron Research Foundation**

## **Notes to Consolidated Financial Statements June 30, 2013 and 2012**

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

On September 1, 2007, an account with Legacy Strategic Asset Management was opened to invest in marketable securities in accordance with the Research Foundation's investment policy. Legacy Strategic Asset Management is a subsidiary of Wachovia Securities and all securities are held by Wells Fargo at June 30, 2013 and 2012. 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. An adjustment to market value resulted in an unrealized gain in fiscal year 2013 and unrealized loss in fiscal year 2012.

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.

During fiscal year 2013, an impairment analysis on a closely held stock resulted in a permanent decline in the value of an equity holding. The amount of the decline totaled \$120,000. This decline is reflected in the consolidated statement of financial position and consolidated statement of activities as an impairment of investment.

### **Note 4 - Fair Value Measurements**

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.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

In instances whereby 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 Research Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2013 and 2012, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and 2012 and the valuation techniques used by the Research Foundation to determine those fair values.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2013

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2013
<b>Assets</b>				
Goldman Sachs Financial	\$ 827,250	\$ -	\$ -	\$ 827,250
Intermediate and short-term bonds	483,914	-	-	483,914
Large blend	496,133	-	-	496,133
Large value	852,564	-	-	852,564
Mid-cap growth	244,441	-	-	244,441
PIMCO securities	1,726,434	-	-	1,726,434
World allocation	244,441	-	-	244,441
<b>Liabilities</b> - Interest rate swap	-	(429,948)	-	(429,948)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2012
<b>Assets</b>				
Federated short-term income	\$ 451,015	\$ -	\$ -	\$ 451,015
Goldman Sachs Financial	15	-	-	15
Intermediate and short-term bonds	540,543	-	-	540,543
Large blend	398,391	-	-	398,391
Large value	382,784	-	-	382,784
Mid-cap growth	336,296	-	-	336,296
PIMCO securities	1,051,832	-	-	1,051,832
World allocation	965,677	-	-	965,677
<b>Liabilities</b> - Interest rate swap	-	(609,351)	-	(609,351)

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

The fair value of the interest rate swap at June 30, 2013 and 2012 was determined primarily based on Level 2 inputs. The Research Foundation's estimate of the fair value of the swap is based on a valuation model that takes into account estimates of changes in interest rates based on yield curves and other market-based information as provided by the bank.

### Note 5 - Receivables

Receivables consist of monies due to the Research Foundation at June 30, 2013 and 2012 from sponsored research contracts, license, rents, and other. After known uncollectible accounts are deducted, 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts. The polymer training receivable is expected to be fully collected and therefore, is not included in the general allowance calculation.

	2013	2012
Sponsored research	\$ 261,177	\$ 542,125
Licenses	65,833	90,000
Experimental services	218,943	180,736
Polymer training	1,427,538	152,157
Other	346,831	239,866
Allowance for doubtful accounts	<u>(53,500)</u>	<u>(51,500)</u>
Total	<u>\$ 2,266,822</u>	<u>\$ 1,153,384</u>

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

Property, plant, and equipment consist of the following:

	2013	2012
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,099,361	5,041,694
Equipment	<u>2,629,800</u>	<u>1,588,131</u>
Total property, plant, and equipment	8,136,086	7,036,750
Less accumulated depreciation	<u>(1,680,090)</u>	<u>(1,235,888)</u>
Net carrying amount	<u>\$ 6,455,996</u>	<u>\$ 5,800,862</u>

Depreciation expense for the years ended June 30, 2013 and 2012 totaled \$444,201 and \$376,197, respectively.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 6 - Property, Plant, and Equipment (Continued)

Through a joint collaboration with an unrelated company, equipment with a fair market value of \$973,000 and \$650,000 was donated to the Research Foundation during the years ended June 30, 2013 and 2012, respectively. The fair market value was determined based on a professional estimate of the purchase price of the equipment at current market rate. This collaboration consisted of a future research and experimental services contract along with the equipment for an engineered surfaces laboratory.

### Note 7 - Accounts Payable

Accounts payable are apportioned as follows at June 30:

	<u>2013</u>	<u>2012</u>
The University of Akron	\$ 2,339,805	\$ 1,439,806
Other nonrelated parties	<u>511,752</u>	<u>724,178</u>
Total	<u>\$ 2,851,557</u>	<u>\$ 2,163,984</u>

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 balance incurred by the University before year end is included in the payable to the University of Akron at June 30, 2013 and 2012.

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, 2013 and 2012 are included in the payable to the University of Akron.

Portions of the indirect costs related to administrative departments are payable to the offices of General Counsel, Finance, and Research Services and are included in the payable to the University of Akron at June 30, 2013 and 2012.

### Note 8 - Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts, a polymer training program, and rental income, which is recorded as deferred revenue. At June 30, 2013 and 2012, the Research Foundation had deferred revenue from the following sources:

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 8 - Deferred Revenue (Continued)

	2013	2012
Sponsored research	\$ 1,346,164	\$ 1,245,780
Polymer training	1,293,847	959,752
Rental income	43,031	62,767
Total	<u>\$ 2,683,042</u>	<u>\$ 2,268,299</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. This loan included an interest rate swap agreement (swap) with a swap counterparty. The original notional amount of the loan was \$1,950,000 with a fixed rate of 6.39 percent.

The original notional amount of the variable portion of the loan was \$975,000. The interest rate on the variable portion is based on the one-month LIBOR plus 1 percent, an effective rate of 1.19 percent and 1.24 percent at June 30, 2013 and 2012, respectively.

The balance due on the note at June 30, 2013 and 2012 was \$2,763,362 and \$2,819,066, respectively.

As of June 30, 2013 and 2012, the swap agreement is summarized as follows:

	Change in Fair Value		Fair Value		Notional
	Classification	Amount	Classification	Amount	
Pay-fixed interest rate swap (receive-variable)					
June 30, 2013	Interest income	\$ (179,403)	Debt	\$ 429,948	\$ 1,842,037
June 30, 2012	Interest expense	238,287	Debt	609,351	1,879,381

Interest income and expense on the swap are reported within support service expenses on the consolidated statement of activities.

Under the terms of the agreement, monthly principal payments ranging from \$4,086 to \$8,246 are due through May 11, 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.

Under the agreement with the bank, the Research Foundation is subject to various financial covenants. As of June 30, 2013, the Research Foundation was in compliance with all such covenants.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 9 - Note Payable (Continued)

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

Years Ending June 30	Amount
2014	\$ 59,702
2015	63,636
2016	67,835
2017	72,311
2018	77,077
Thereafter	2,422,801
Total	<u>\$ 2,763,362</u>

### Note 10 - Operating Lease Rentals

AIC and UARF have operating lease agreements with 21 tenants at the three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2031. As of June 30, 2013 and 2012, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,099,361 and \$5,041,694, respectively, with accumulated depreciation of \$1,026,837 and \$811,854, respectively.

The Research Foundation entered into an equipment lease agreement with Akron Polymer Systems (APS) on February 8, 2011. APS is a related party as the Research Foundation is a 5 percent equity owner of the company. The operating lease agreement leases the Research Foundation's pilot plant equipment to Akron Polymer Systems for a period of 20 years. The terms require the lessee to pay 10 percent of all revenues generated by clients referred by the Research Foundation or no less than \$3,000. At June 30, 2013 and 2012, the equipment was recorded at a cost of \$137,683 with accumulated depreciation of \$137,683.

# The University of Akron Research Foundation

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

As of June 30, 2013, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,560,983 and are due in the fiscal years ending June 30 as follows:

2014	\$	633,328
2015		405,994
2016		256,528
2017		182,104
2018		44,029
Thereafter		<u>39,000</u>
Total	\$	<u>1,560,983</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, 2013 and 2012, the Research Foundation paid \$228,503 and \$332,090, respectively, to UIV for materials investigation and project management. As of June 30, 2013 and 2012, the Research Foundation has recorded a receivable due from UIV of \$136,215 and \$17,639, respectively, which is included in net receivables on the consolidated statement of financial position.

The University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2013 and 2012, the Research Foundation paid \$4,208,341 and \$4,432,941, respectively, to the University for research and polymer training expenses.

## **Additional Information**

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# The University of Akron Research Foundation

## Consolidating Statement of Financial Position June 30, 2013

	University of					Total
	Akron Research Foundation	Akron Innovation Campus	Akron Surface Technologies Inc	PolyMedTech Inc.	Eliminations	
<b>Assets</b>						
Cash and cash equivalents	\$ 1,024,265	\$ 329,487	\$ 64,685	\$ 32,467	\$ -	\$ 1,450,904
Investments at market	4,875,177	-	-	-	-	4,875,177
Receivables - Net	2,733,341	12,398	-	-	(478,917)	2,266,822
Prepaid expenses and other	18,191	19,650	31,659	-	-	69,500
Total current assets	8,650,974	361,535	96,344	32,467	(478,917)	8,662,403
Investments	250,735	-	-	-	-	250,735
Investment in subsidiary	2,132,924	-	-	-	(2,132,924)	-
Property, plant, and equipment - Net	2,484,257	3,910,361	61,378	-	-	6,455,996
Total long-term assets	4,867,916	3,910,361	61,378	-	(2,132,924)	6,706,731
Total assets	<u>\$ 13,518,890</u>	<u>\$ 4,271,896</u>	<u>\$ 157,722</u>	<u>\$ 32,467</u>	<u>\$ (2,611,841)</u>	<u>\$ 15,369,134</u>
<b>Liabilities and Net Assets (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,046,342	\$ 39,276	\$ 238,833	\$ 1,501	\$ (474,395)	\$ 2,851,557
Accrued expenses	196,914	60,319	-	-	-	257,233
Accrued professional fees	26,000	-	-	-	-	26,000
Deferred revenue	2,641,342	41,700	-	-	-	2,683,042
Current portion of note	-	59,702	-	-	-	59,702
Fair value of interest rate swap	-	429,948	-	-	-	429,948
Total current liabilities	5,910,598	630,945	238,833	1,501	(474,395)	6,307,482
Long-term note payable	-	2,703,660	-	-	-	2,703,660
Total	5,910,598	3,334,605	238,833	1,501	(474,395)	9,011,142
Member contributions	4,522	2,071,924	51,000	10,000	(2,137,446)	-
Total liabilities	5,915,120	5,406,529	289,833	11,501	(2,611,841)	9,011,142
<b>Net Assets (Deficit) - Unrestricted</b>	7,603,770	(1,134,633)	(132,111)	20,966	-	6,357,992
Total liabilities and net assets (deficit)	<u>\$ 13,518,890</u>	<u>\$ 4,271,896</u>	<u>\$ 157,722</u>	<u>\$ 32,467</u>	<u>\$ (2,611,841)</u>	<u>\$ 15,369,134</u>

# The University of Akron Research Foundation

## Consolidating Statement of Activities Year Ended June 30, 2013

	University of Akron Research Foundation	Akron Innovation Campus	Akron Surface Technologies Inc.	PolyMedTech Inc.	Eliminations	Total
<b>Revenue</b>						
Polymer training	\$ 6,846,213	\$ -	\$ -	\$ -	\$ (2,261,357)	\$ 4,584,856
Sponsored research	2,624,202	-	-	-	-	2,624,202
Experimental services	1,120,407	-	-	-	-	1,120,407
Rental income	16,927	749,094	-	-	(191,620)	574,401
License royalties and fees	271,944	-	-	-	-	271,944
Research funding	452,577	-	-	-	-	452,577
Interest income	128,115	-	-	-	-	128,115
Patent fee reimbursement	22,842	-	-	-	-	22,842
Unrealized gain on investments	315,489	-	-	-	-	315,489
Impairment of investment	(120,000)	-	-	-	-	(120,000)
Donated equipment	973,000	-	-	-	-	973,000
Cost share support	29,794	-	-	-	-	29,794
Miscellaneous income	261,007	-	-	35,000	-	296,007
<b>Total revenue</b>	<b>12,942,517</b>	<b>749,094</b>	<b>-</b>	<b>35,000</b>	<b>(2,452,977)</b>	<b>11,273,634</b>
<b>Expenses</b>						
Polymer training expense	6,084,697	-	4,263	-	(2,261,357)	3,827,603
Direct costs	2,009,568	-	-	-	-	2,009,568
Allocated indirect costs	509,721	-	-	-	-	509,721
Research support	792,619	-	-	-	-	792,619
Experimental services	1,023,990	-	-	-	-	1,023,990
Royalty distributions	80,824	-	-	10,000	-	90,824
Bad debt expense	133,554	-	-	-	-	133,554
Cost share support	29,794	-	-	-	-	29,794
Wage expense	312,060	-	39,237	3,503	-	354,800
Building operating expense	209,109	447,846	43,534	-	(191,620)	508,869
Interest income - Change in swap value	-	(179,403)	-	-	-	(179,403)
Interest expense	-	132,047	-	-	-	132,047
Public relations	97,173	-	-	-	-	97,173
Depreciation and amortization expense	239,512	208,729	4,721	-	-	452,962
Professional fees	33,646	-	9,300	-	-	42,946
Office expense	33,058	3,077	29,323	26	-	65,484
Donation	9,900	-	-	-	-	9,900
Insurance	23,342	-	1,733	505	-	25,580
<b>Total expenses</b>	<b>11,622,567</b>	<b>612,296</b>	<b>132,111</b>	<b>14,034</b>	<b>(2,452,977)</b>	<b>9,928,031</b>
<b>Change in Net Assets</b>	<b>1,319,950</b>	<b>136,798</b>	<b>(132,111)</b>	<b>20,966</b>	<b>-</b>	<b>1,345,603</b>
<b>Net Assets (Deficit) - Unrestricted - Beginning of year</b>	<b>6,283,821</b>	<b>(1,271,432)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,012,389</b>
<b>Net Assets (Deficit) - Unrestricted - End of year</b>	<b>\$ 7,603,771</b>	<b>\$ (1,134,634)</b>	<b>\$ (132,111)</b>	<b>\$ 20,966</b>	<b>\$ -</b>	<b>\$ 6,357,992</b>

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

Independent Auditor's Report

To Management and the Board of Directors  
The University of Akron Research Foundation

We have audited, in accordance with the 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, the financial statements of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of the University of Akron, which comprise the consolidated statement of financial position as of June 30, 2013, the related consolidated statements of activities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated October 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The University of Akron Research Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2013-001, that we consider to be a significant deficiency.

To Management and the Board of Directors  
The University of Akron Research Foundation

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The University of Akron Research Foundation's financial statements are free from 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*.

### **The University of Akron Research Foundation's Response to Findings**

The University of Akron Research Foundation's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The University of Akron Research Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Morse, PLLC*

Columbus, Ohio  
October 9, 2013

# The University of Akron Research Foundation

## Schedule of Findings and Responses Year Ended June 30, 2013

Reference Number	Finding
2013-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Accounting standards require that the value of the swap liability be recorded at fair value as of the report date.</p> <p><b>Condition</b> - The Research Foundation did not record the interest rate swap liability at its fair value at June 30, 2013.</p> <p><b>Context</b> - The audit procedures of confirming the fair value of the swap liability directly with the bank, along with Plante &amp; Moran, PLLC's internal analysis of the fair value, determined that the Research Foundation had improperly recorded the fair value of the swap liability at June 30, 2013.</p> <p><b>Cause</b> - The Research Foundation did not reconcile the fair value of the swap liability to information it received from the bank prior to Plante &amp; Moran, PLLC's audit procedures.</p> <p><b>Effect</b> - Prior to the correcting journal entry, the swap liability as of June 30, 2013 was overaccrued by \$238,287.</p> <p><b>Recommendation</b> - We recommend a review process whereby multiple individuals verify that the reconciliation process is properly completed to ensure that the correct amount is reported in the general ledger.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management agrees with the auditor's finding that the Research Foundation did not reconcile the interest rate swap liability to information received from the bank. A process will be established immediately whereby the company treasurer, along with at least one other officer, will verify that the reconciliation process is properly completed to ensure that the correct amount is reported.</p>

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# 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 14, 2014