

The University of Akron Research Foundation and Subsidiaries

**Consolidated Financial Statements
with Additional Information
June 30, 2014 and 2013**



Dave Yost • Auditor of State

Board of Directors
The University of Akron Research Foundation and Subsidiaries
302 Butchel Common
Akron, Ohio 44325

We have reviewed the *Independent Auditor's Report* of The University of Akron Research Foundation and Subsidiaries, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2013 through June 30, 2014. 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 and Subsidiaries 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 19, 2014

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The University of Akron Research Foundation and Subsidiaries

Contents

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-18
Additional Information	19
Consolidating Statement of Financial Position	20
Consolidating Statement of Activities	21
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 <i>Government Auditing Standards</i>	22-23

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The University of Akron Research Foundation and Subsidiaries (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, 2014 and 2013, 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 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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 and Subsidiaries as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise The University of Akron Research Foundation and Subsidiaries' financial statements. The additional information, as shown on pages 20 and 21, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. The additional 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. Such information has been subjected to the auditing procedures applied in the audits 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 6, 2014 on our consideration of The University of Akron Research Foundation and Subsidiaries' 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 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Research Foundation and Subsidiaries' internal control over financial reporting and compliance.

Plante & Morse, PLLC

October 6, 2014

The University of Akron Research Foundation and Subsidiaries
Consolidated Statement of Financial Position

	June 30	
	2014	2013
Assets		
Cash and cash equivalents	\$ 2,837,071	\$ 1,450,904
Short-term investments (Notes 3 and 4)	5,739,413	4,875,177
Receivables - Net (Note 5)	1,963,738	2,266,822
Prepaid expenses and other	52,851	69,500
Total current assets	10,593,073	8,662,403
Long-term investments (Note 3)	220,766	250,735
Property, plant, and equipment - Net (Note 6)	5,919,955	6,455,996
Total long-term assets	6,140,721	6,706,731
Total assets	\$ 16,733,794	\$ 15,369,134
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 7)	\$ 3,235,888	\$ 2,851,557
Accrued expenses	402,356	257,233
Accrued professional fees	26,000	26,000
Deferred revenue (Note 8)	2,986,426	2,683,042
Current portion of note payable (Note 9)	63,636	59,702
Fair value of interest rate swap (Notes 4 and 9)	401,795	429,948
Total current liabilities	7,116,101	6,307,482
Long-term note payable (Note 9)	2,639,718	2,703,660
Total liabilities	9,755,819	9,011,142
Net Assets - Unrestricted	6,977,975	6,357,992
Total liabilities and net assets	\$ 16,733,794	\$ 15,369,134

The University of Akron Research Foundation and Subsidiaries

Consolidated Statement of Activities

	Year Ended June 30	
	2014	2013
Revenue		
Polymer training	\$ 5,606,153	\$ 4,584,856
Sponsored research	2,902,462	2,624,202
Experimental services	910,667	1,120,407
Rental income	557,627	574,401
License royalties and fees	260,500	271,944
Research funding	594,946	452,577
Interest income	123,336	128,115
Patent fee reimbursement	76,861	22,842
Unrealized gain on investments	537,043	315,489
Impairment of investment (Note 3)	-	(120,000)
Donated equipment (Note 6)	-	973,000
Cost share support	387,973	29,794
Other income	429,106	296,007
Total revenue	12,386,674	11,273,634
Expenses		
Program services:		
Polymer training expense	4,726,222	3,827,603
Direct costs	2,194,093	2,009,568
Allocated indirect costs	604,987	509,721
Research support	915,987	792,619
Experimental services	678,430	1,023,990
Royalty distributions	94,771	90,824
Bad debt expense	140,835	133,554
Depreciation and amortization expense	106,932	106,739
Cost share support	387,973	29,794
Total program services	9,850,230	8,524,412
Support services:		
Wage and benefit expense	521,681	354,800
Building operating expense	509,693	508,869
Interest (income) expense - Change in swap value (Note 9)	(28,153)	(179,403)
Interest expense	128,715	132,047
Public relations	105,570	97,173
Depreciation and amortization expense	493,618	346,223
Professional fees	58,106	42,946
Office expense	90,947	65,484
Donation	800	9,900
Insurance	35,484	25,580
Total support services	1,916,461	1,403,619
Total expenses	11,766,691	9,928,031
Change in Net Assets	619,983	1,345,603
Net Assets - Beginning of year	6,357,992	5,012,389
Net Assets - End of year	\$ 6,977,975	\$ 6,357,992

The University of Akron Research Foundation and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 619,983	\$ 1,345,603
Adjustments to reconcile change in net assets to net cash from operating activities:		
Noncash items:		
Impairment of investment	-	120,000
Depreciation and amortization expense	600,550	452,962
Bad debt expense	140,835	133,554
Unrealized gain on securities	(537,043)	(315,489)
Change in interest rate swap	(28,153)	(179,403)
Donation of equipment	-	(973,000)
Changes in operating assets and liabilities:		
Receivables	162,248	(1,246,992)
Prepaid expenses	7,087	(41,490)
Payables and accrued expenses	529,454	611,270
Deferred revenue	303,384	414,743
	1,798,345	321,758
Cash Flows from Investing Activities		
Purchases of investments	(297,224)	(423,750)
Purchase of buildings and equipment	(54,946)	(126,335)
	(352,170)	(550,085)
Cash Flows from Financing Activities - Payments on debt	(60,008)	(55,704)
Increase (Decrease) in Cash and Cash Equivalents	1,386,167	(284,031)
Cash and Cash Equivalents - Beginning of year	1,450,904	1,734,935
Cash and Cash Equivalents - End of year	\$ 2,837,071	\$ 1,450,904
Supplemental Disclosure of Cash Flow Information -		
Cash paid for interest	\$ 128,715	\$ 132,153

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 1 - Organization

The University of Akron Research Foundation and Subsidiaries (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, 2014. Akron Innovation Campus LLC (AIC), Akron Surface Technologies, Inc. (ASTI) and PolyMedTech, 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 years 2014 and 2013, the Research Foundation provided the operating capital required to start the company and is the sole stockholder as of June 30, 2014.

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, 2014.

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 and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

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 under three-party agreements. 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 \$1,420,733 and \$1,293,847 as of June 30, 2014 and 2013, 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 prior to the due date is recognized as deferred revenue. Rental income received in the month the rent is due is recognized as revenue.

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 three 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 and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

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 and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

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. Gain or losses and changes in the valuation of the swap are recognized on the statement of activities.

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, 2014 and 2013. There were no other board-designated net assets as of June 30, 2014 and 2013.

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, 2014 and 2013, in-kind support in the amount of \$387,973 and \$29,794, 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.

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 and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013, 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's wholly owned subsidiaries are subject to income tax. As of June 30, 2014 and 2013, there is no known tax liability or tax asset.

The Research Foundation and its subsidiaries are 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 2011.

Upcoming Accounting Pronouncements - In April 2013, the FASB issued Accounting Standards Update 2013-06, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. The standard provides guidance on how to account for contributed personnel services from an affiliate. The standard clarifies that all contributed services received from an affiliate that directly benefit the recipient not-for-profit should be recognized. The standard will be effective for annual periods beginning after June 15, 2014. The Research Foundation is currently evaluating the impact this standard will have on the financial statements when adopted, during the June 30, 2015 fiscal year.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. The standard provides guidance on how to account for revenue using a five step principles-based approach. The standard will be effective for annual periods beginning after June 15, 2017.

Subsequent Events - The consolidated financial statements and related disclosures included evaluation of events up through and including October 6, 2014, which is the date the consolidated financial statements were available to be issued.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 3 - Investments

Investments at June 30, 2014 and 2013 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	<u>2014</u>	<u>2013</u>
Marketable securities:		
Stock equities and mutual funds (Note 4)	\$ 5,739,413	\$ 4,875,177
Alternative investments:		
Closely held stock and private equity (cost method)	105,276	150,245
Closely held stock and private equity (equity method)	<u>115,490</u>	<u>100,490</u>
Total alternative investments	<u>220,766</u>	<u>250,735</u>
Total investments	<u>\$ 5,960,179</u>	<u>\$ 5,125,912</u>

The Research Foundation's marketable securities are held with Wells Fargo. Our advisor is the Legacy Strategic Asset Management Group. 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 appreciation to market value resulted in an unrealized gain in fiscal year 2014 and 2013.

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 I inputs use quoted prices in active markets for identical assets or liabilities that the Research Foundation has the ability to access.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 4 - Fair Value Measurements (Continued)

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 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, 2014 and 2013, 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, 2014 and 2013 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, 2014

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2014
Assets - Short-term investments				
Fixed income	\$ 1,588,419	\$ -	\$ -	\$ 1,588,419
Large growth	613,671	-	-	613,671
Large value	612,463	-	-	612,463
Small- and mid-cap growth	580,626	-	-	580,626
Alternatives	1,130,847	-	-	1,130,847
Internationals	1,213,387	-	-	1,213,387
Total assets	<u>\$ 5,739,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,739,413</u>
Liabilities - Interest rate swap				
	<u>\$ -</u>	<u>\$ (401,795)</u>	<u>\$ -</u>	<u>\$ (401,795)</u>

The University of Akron Research Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 4 - Fair Value Measurements (Continued)

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
Assets - Short-term investments				
Fixed income	\$ 1,726,434	\$ -	\$ -	\$ 1,726,434
Large growth	483,914	-	-	483,914
Large value	496,133	-	-	496,133
Small- and mid-cap growth	488,882	-	-	488,882
Alternatives	827,251	-	-	827,250
Internationals	852,564	-	-	852,564
Total assets	<u>\$ 4,875,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,875,177</u>
Liabilities - Interest rate swap				
	<u>\$ -</u>	<u>\$ (429,948)</u>	<u>\$ -</u>	<u>\$ (429,948)</u>

The fair value of the interest rate swap at June 30, 2014 and 2013 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, 2014 and 2013 from sponsored research contracts, licenses, 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.

	2014	2013
Sponsored research	\$ 606,041	\$ 261,177
Licenses	173,833	65,833
Experimental services	244,866	218,943
Polymer training	324,310	1,427,538
Other	694,688	346,831
Allowance for doubtful accounts	<u>(80,000)</u>	<u>(53,500)</u>
Total	<u>\$ 1,963,738</u>	<u>\$ 2,266,822</u>

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2014	2013
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,147,391	5,099,361
Equipment	<u>2,636,716</u>	<u>2,629,800</u>
Total property, plant, and equipment	8,191,032	8,136,086
Less accumulated depreciation	<u>(2,271,077)</u>	<u>(1,680,090)</u>
Net carrying amount	<u>\$ 5,919,955</u>	<u>\$ 6,455,996</u>

Depreciation expense for the years ended June 30, 2014 and 2013 totaled \$590,987 and \$444,201, respectively.

Through a joint collaboration with an unrelated company, equipment with a fair market value of \$973,000 was donated to the Research Foundation during the year ended June 30, 2013. 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:

	2014	2013
The University of Akron	\$ 2,756,324	\$ 2,467,874
Other nonrelated parties	<u>479,564</u>	<u>383,683</u>
Total	<u>\$ 3,235,888</u>	<u>\$ 2,851,557</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, 2014 and 2013.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

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 principal investigator's college or department for use by principal investigator and colleges. The undistributed indirect costs at June 30, 2014 and 2013 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, 2014 and 2013.

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, 2014 and 2013, the Research Foundation had deferred revenue from the following sources:

	2014	2013
Sponsored research	\$ 1,529,913	\$ 1,346,164
Polymer training	1,420,733	1,293,847
Rental income	35,780	43,031
Total	<u>\$ 2,986,426</u>	<u>\$ 2,683,042</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 1.15 percent and 1.19 percent at June 30, 2014 and 2013, respectively.

The balance due on the note at June 30, 2014 and 2013 was \$2,703,354 and \$2,763,362, respectively.

The University of Akron Research Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 9 - Note Payable (continued)

As of June 30, 2014 and 2013, 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, 2014	Interest Income	\$ (28,153)	Debt	\$ 401,795	\$ 1,802,232
June 30, 2013	Interest income	\$ (179,403)	Debt	\$ 429,948	\$ 1,842,037

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, 2014, the Research Foundation was in compliance with all such covenants.

Future maturities of debt (principal only) for the years ending June 30 are as follows:

Years Ending June 30	Amount
2015	\$ 63,636
2016	67,835
2017	72,311
2018	77,077
2019	82,156
Thereafter	<u>2,340,339</u>
Total	<u>\$ 2,703,354</u>

Note 10 - Operating Lease Rentals

AIC and the Research Foundation have operating lease agreements with 19 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, 2014 and 2013, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,147,391 and \$5,099,361, respectively, with accumulated depreciation of \$1,222,589 and \$1,026,837, respectively.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 10 - Operating Lease Rentals (Continued)

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, 2014 and 2013, the equipment was recorded at a cost of \$137,683 with accumulated depreciation of \$137,683.

As of June 30, 2014, the minimum future rentals on the non-cancelable portion of the operating lease rentals aggregate \$982,767 and are due in the fiscal years ending June 30 as follows:

	Amount
2015	\$ 445,856
2016	271,778
2017	182,104
2018	44,029
2019	3,000
Thereafter	<u>36,000</u>
Total	<u>\$ 982,767</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, 2014 and 2013, the Research Foundation paid \$241,831 and \$228,503, respectively, to UIV for materials investigation and project management. As of June 30, 2014 and 2013, the Research Foundation has recorded a receivable due from UIV of \$76,896 and \$136,215, 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, 2014 and 2013, the Research Foundation paid \$4,963,092 and \$5,232,331, respectively, to the University for research and polymer training expenses.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 12 – Line of Credit

On May 17, 2014, the Research Foundation obtained a \$2,500,000 revolving line of credit with Wells Fargo Bank. Interest on the revolver is at a fluctuating rate of one-month LIBOR plus 1.65 percent per annum. The line is secured by the Research Foundation's investment account with Wells Fargo. The line is set to expire March 17, 2016 and there was no amount outstanding at June 30, 2014.

Additional Information

The University of Akron Research Foundation and Subsidiaries

Consolidating Statement of Financial Position

June 30, 2014

	University of					Total
	Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	
Assets						
Cash and cash equivalents	\$ 2,358,690	\$ 404,300	\$ 57,370	\$ 16,711	\$ -	\$ 2,837,071
Investments at market	5,739,413	-	-	-	-	5,739,413
Receivables - Net	2,223,352	6,266	141,200	-	(407,080)	1,963,738
Prepaid expenses and other	9,076	12,104	31,671	-	-	52,851
Total current assets	10,330,531	422,670	230,241	16,711	(407,080)	10,593,073
Investments	281,766	-	-	-	(61,000)	220,766
Investment in subsidiary	2,101,877	-	-	-	(2,101,877)	-
Property, plant, and equipment - Net	2,092,303	3,769,354	58,298	-	-	5,919,955
Total long-term assets	4,475,946	3,769,354	58,298	-	(2,162,877)	6,140,721
Total assets	\$ 14,806,477	\$ 4,192,024	\$ 288,539	\$ 16,711	\$ (2,569,957)	\$ 16,733,794
Liabilities and Net Assets (Deficit)						
Liabilities						
Accounts payable	\$ 3,140,270	\$ 23,886	\$ 478,761	\$ 51	\$ (407,080)	\$ 3,235,888
Accrued expenses	341,617	60,739	-	-	-	402,356
Accrued professional fees	26,000	-	-	-	-	26,000
Deferred revenue	2,950,646	35,780	-	-	-	2,986,426
Current portion of note	-	63,636	-	-	-	63,636
Fair value of interest rate swap	-	401,795	-	-	-	401,795
Total current liabilities	6,458,533	585,836	478,761	51	(407,080)	7,116,101
Long-term note payable	-	2,639,718	-	-	-	2,639,718
Total	6,458,533	3,225,554	478,761	51	(407,080)	9,755,819
Member contributions	-	2,101,877	51,000	10,000	(2,162,877)	-
Total liabilities	6,458,533	5,327,431	529,761	10,051	(2,569,957)	9,755,819
Net Assets (Deficit) - Unrestricted	8,347,944	(1,135,407)	(241,222)	6,660	-	6,977,975
Total liabilities and net assets (deficit)	\$ 14,806,477	\$ 4,192,024	\$ 288,539	\$ 16,711	\$ (2,569,957)	\$ 16,733,794

The University of Akron Research Foundation and Subsidiaries

Consolidating Statement of Activities Year Ended June 30, 2014

	University of					
	Akron Research	Akron Innovation	Akron Surface			
	Foundation	Campus LLC	Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
Revenue						
Polymer training	\$ 5,606,153	\$ -	\$ -	\$ -	\$ -	\$ 5,606,153
Sponsored research	2,902,462	-	-	-	-	2,902,462
Experimental services	910,667	-	-	-	-	910,667
Rental income	6,759	742,214	-	-	(191,346)	557,627
License royalties and fees	260,500	-	-	-	-	260,500
Research funding	594,946	-	-	-	-	594,946
Interest income	123,336	-	-	-	-	123,336
Patent fee reimbursement	76,861	-	-	-	-	76,861
Unrealized gain on investments	537,043	-	-	-	-	537,043
Cost share support	387,973	-	-	-	-	387,973
Miscellaneous income	230,286	-	193,820	5,000	-	429,106
Total revenue	11,636,986	742,214	193,820	5,000	(191,346)	12,386,674
Expenses						
Polymer training expense	4,726,222	-	-	-	-	4,726,222
Direct costs	2,194,093	-	-	-	-	2,194,093
Allocated indirect costs	604,987	-	-	-	-	604,987
Research support	820,056	-	80,531	15,400	-	915,987
Experimental services	678,430	-	-	-	-	678,430
Royalty distributions	94,771	-	-	-	-	94,771
Bad debt expense	140,835	-	-	-	-	140,835
Cost share support	387,973	-	-	-	-	387,973
Wage expense	329,954	-	188,369	3,358	-	521,681
Building operating expense	256,036	442,939	2,064	-	(191,346)	509,693
Interest income - Change in swap value	-	(28,153)	-	-	-	(28,153)
Interest expense	-	128,715	-	-	-	128,715
Public relations	99,447	-	6,123	-	-	105,570
Depreciation and amortization expense	392,018	198,600	9,932	-	-	600,550
Professional fees	58,106	-	-	-	-	58,106
Office expense	76,728	886	13,333	-	-	90,947
Donation	800	-	-	-	-	800
Insurance	32,357	-	2,579	548	-	35,484
Total expenses	10,892,813	742,987	302,931	19,306	(191,346)	11,766,691
Change in Net Assets	744,173	(773)	(109,111)	(14,306)	-	619,983
Net Assets (Deficit) - Unrestricted - Beginning of year	7,603,771	(1,134,634)	(132,111)	20,966	-	6,357,992
Net Assets (Deficit) - Unrestricted - End of year	<u>\$ 8,347,944</u>	<u>\$ (1,135,407)</u>	<u>\$ (241,222)</u>	<u>\$ 6,660</u>	<u>\$ -</u>	<u>\$ 6,977,975</u>

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 and Subsidiaries

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 consolidated financial statements of The University of Akron Research Foundation and Subsidiaries (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, 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The University of Akron Research Foundation and Subsidiaries' 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 Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation'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. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of Akron Research Foundation and Subsidiaries' 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*.

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

October 6, 2014

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Dave Yost • Auditor of State

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES

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
DECEMBER 30, 2014**