

**The University of Akron  
Research Foundation**

**Financial Statements  
June 30, 2003**





**Auditor of State  
Betty Montgomery**

Board of Directors  
University of Akron Research Foundation  
302 Buchtel Common  
Akron, Ohio 44325-4805

We have reviewed the Independent Auditor's Report of the University of Akron Research Foundation, Summit County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2002 through June 30, 2003. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 26, 2004

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# The University of Akron Research Foundation

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## Report of Independent Auditors

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2003 on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*PricewaterhouseCoopers LLP*

December 12, 2003

# The University of Akron Research Foundation

## Statement of Financial Position At June 30, 2003

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<b>ASSETS</b>	<b>2003</b>
Cash and cash equivalents	\$ 989,973
Receivables	129,062
Prepaid expenses	<u>112,500</u>
Total assets	<u>\$ 1,231,535</u>
 <b>LIABILITIES AND NET ASSETS</b>	
Payables	\$ 329,643
Accrued professional fees	19,925
Deferred revenue	<u>525,999</u>
Total liabilities	<u>875,567</u>
Total net assets - unrestricted	<u>355,968</u>
Total liabilities and net assets	<u>\$ 1,231,535</u>

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

# The University of Akron Research Foundation

## Statement of Activities For the Year Ended June 30, 2003

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	<b>2003</b>
Revenues:	
License revenue:	
Royalties and fees	\$ 403,437
Patent reimbursement	11,839
Sponsored research	640,004
Interest income	5,265
Miscellaneous income	<u>576</u>
Total revenues	<u>1,061,121</u>
Expenses:	
Program services:	
Royalty distributions	156,103
Technical marketing	76,088
Allocated indirect costs	97,333
Direct costs	459,148
Supporting services:	
Professional fees	26,675
Insurance	4,617
Miscellaneous expense	<u>1,908</u>
Total expenses	<u>821,872</u>
Increase in net assets	239,249
Net assets - unrestricted, beginning of year	<u>116,719</u>
Net assets - unrestricted, end of year	<u>\$ 355,968</u>

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

# The University of Akron Research Foundation

## Statement of Cash Flow For the Year Ended June 30, 2003

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	<b>2003</b>
Operating activities:	
Increase in net assets	\$ 239,249
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Receivables	(10,998)
Prepaid expenses	(112,500)
Payables and accrued expenses	181,896
Deferred revenue	410,985
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Net cash provided by operating activities	708,632
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Cash, beginning of year	281,341
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Cash, end of year	\$ 989,973
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The accompanying notes are an integral part of these financial statements.

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### 1. Organization

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

The Research Foundation is governed by a five member Board of Directors (Board). The Board includes The University President; The University Vice President for Research and three non-University members designated by The University President.

### 2. Significant Accounting Policies

#### **Basis of Accounting**

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

#### **Principal Revenues and Expenses**

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

Sponsored research contracts are agreements for specific research, which is performed for a Sponsor by The University. The revenues are received by and maintained within the Research Foundation's accounting records while the direct costs associated with the contracts are incurred by and reflected within The University's accounting records. Each month, The University invoices the Research Foundation for the direct costs incurred under the research contracts. As of June 30, 2003, the Research Foundation carried a \$118,479 liability to The University for this activity (see Note 4).

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

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

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### **Cash and Cash Equivalents**

The Research Foundation considers all demand deposits and money market funds to be cash and cash equivalents. All cash and cash equivalents are on deposit with a single bank. Of the \$989,973 cash and cash equivalents, \$593,032 is considered restricted for specific purposes. The \$593,032 consists of \$296,256 of sponsored research contract amounts received in advance of being earned and \$296,776 of payables to third parties under existing royalty, license and contract agreements.

### **Prepaid Expenses**

The Research Foundation paid in advance a royalty to two inventors, which has been recorded as a prepaid expense. Prepaid expense is charged to operations over the length of the contract.

### **Deferred Revenue**

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

### **University Support of the Research Foundation**

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

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

### **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

# The University of Akron Research Foundation

## Notes to the Financial Statements

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revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. Receivables

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

June 30, 2003

Sponsored Research	\$ 71,538
Licenses	48,333
Patent Reimbursements	<u>9,191</u>
	<u>\$ 129,062</u>

### 4. Payables

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

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

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

June 30, 2003

The University of Akron	\$ 118,479
Inventors & Colleges	108,719
Royalties	<u>102,445</u>
	<u>\$ 329,643</u>

# The University of Akron Research Foundation

## Notes to the Financial Statements

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### 5. Accrued Professional Fees

The professional fees are for known services related to fiscal year 2003, which have not been invoiced at June 30, 2003.

### 6. Deferred Revenue

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

	June 30, 2003
Sponsored Research	\$ 338,499
Licenses	<u>187,500</u>
	<u>\$ 525,999</u>

### 7. Concentration of Risk

The sponsored research contract and license agreement with Nitto Denko represents 40% of the Research Foundation's revenues for the fiscal year ended June 30, 2003.

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

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

We have audited the financial statements of The University of Akron Research Foundation ("Research Foundation") as of and for the year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

(a) Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Research Foundation in a separate letter dated December 17, 2003.

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

*PricewaterhouseCoopers LLP*

December 12, 2003





**Auditor of State  
Betty Montgomery**

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**UNIVERSITY OF AKRON RESEARCH FOUNDATION**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 5, 2004**