

The University of Akron
Research Foundation
Financial Statements
June 30, 2005 and June 2004



**Auditor of State
Betty Montgomery**

Board of Directors
University of Akron Research Foundation
Goodyear Polymer Center, Suite 312
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Akron, Ohio 44325-2103

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, 2004 to June 30, 2005. 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 5, 2006

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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 statements 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2005 on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on page 10 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PricewaterhouseCoopers LLP

September 29, 2005

The University of Akron Research Foundation

Statements of Financial Position At June 30, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents	\$ 1,789,443	\$ 1,808,536
Receivables	206,517	220,614
Prepaid expenses	144,240	114,985
Investments at cost	209,000	159,000
Other investments	849,903	-
Equipment, net of accumulated depreciation of \$30,545	122,180	-
Total assets	<u>\$ 3,321,283</u>	<u>\$ 2,303,135</u>
Liabilities and Net Assets		
Payables	\$ 630,303	\$ 416,504
Accrued expenses	24,374	29,683
Accrued professional fees	21,350	20,625
Deferred revenue	1,131,514	990,408
Total liabilities	<u>1,807,541</u>	<u>1,457,220</u>
Total net assets - unrestricted	<u>1,513,742</u>	<u>845,915</u>
Total liabilities and net assets	<u>\$ 3,321,283</u>	<u>\$ 2,303,135</u>

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

The University of Akron Research Foundation

Statements of Activities For the Years Ended June 30, 2005 and 2004

	2005	2004
Revenues:		
License royalties and fees	\$ 579,262	\$ 525,714
Sponsored research	1,744,546	1,253,147
Value received for licenses	50,000	159,000
Pilot plant income	45,578	-
Training revenue	-	50,000
Cost share support	80,325	52,942
Interest income	48,520	13,191
Contributions	173,373	-
Miscellaneous income	1,137	2,250
Total revenues	<u>2,722,741</u>	<u>2,056,244</u>
Expenses:		
Program services:		
Royalty distributions	201,419	199,761
Technical marketing	72,998	72,280
Allocated indirect costs	248,598	143,551
Direct costs	1,266,301	950,427
Pilot plant expense	59,052	-
Bad debt expense	19,424	59,150
Training fee	-	45,000
Cost share support	80,325	52,942
Supporting services:		
Professional fees	26,517	21,857
Wage expense	24,395	18,148
Public relations	16,657	-
Depreciation expense	30,545	-
Insurance	3,313	828
Miscellaneous expense	5,370	2,353
Total expenses	<u>2,054,914</u>	<u>1,566,297</u>
Change in net assets	667,827	489,947
Net assets - unrestricted, beginning of year	<u>845,915</u>	<u>355,968</u>
Net assets - unrestricted, end of year	<u>\$1,513,742</u>	<u>\$ 845,915</u>

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

The University of Akron Research Foundation

Statements of Cash Flows For the Years Ended June 30, 2005 and 2004

	2005	2004
Operating activities:		
Change in net assets	\$ 667,827	\$ 489,947
Value received for licenses	(50,000)	(159,000)
Donation of equipment	(122,180)	-
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Receivables	14,098	(91,552)
Prepaid expenses	(29,255)	(2,484)
Payables and accrued expenses	209,215	117,243
Deferred revenue	141,105	464,409
Net cash provided by operating activities	<u>830,810</u>	<u>818,563</u>
Investing activities:		
Investments purchased	<u>(849,903)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(19,093)	818,563
Cash and cash equivalents, beginning of year	<u>1,808,536</u>	<u>989,973</u>
Cash and cash equivalents, end of year	<u>\$ 1,789,443</u>	<u>\$ 1,808,536</u>

Non-cash transactions:

During the years ended June 30, 2005 and 2004, the Research Foundation received investments valued at \$50,000 and \$159,000 respectively in exchange for providing a license agreement.

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

The University of Akron Research Foundation

Notes to the Financial Statements

1. Organization

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

The Research Foundation is governed by a nine member Board of Directors (Board). The Board includes The University President; The University Vice President for Research, two University directors designated by The University President, and five non-University members elected by the Board.

2. Significant Accounting Policies

Basis of Accounting

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

Principal Revenues and Expenses

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

Sponsored research contracts are agreements for specific research, which is performed for a Sponsor by The University. The revenues are received by and maintained within the Research Foundation's accounting records while the direct costs associated with the contracts are incurred by and reflected within The University's accounting records. Each month, The University invoices the Research Foundation for the direct costs incurred under the research contracts. As of June 30, 2005 and 2004, the Research Foundation carried a liability of \$150,828 and \$115,746 respectively to The University for this activity (see Note 5).

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

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

The University of Akron Research Foundation

Notes to the Financial Statements

Cash and Cash Equivalents

The Research Foundation considers all demand deposits, certificates of deposit, and money market funds with an original maturity of three months or less to be cash and cash equivalents. Of the \$1,789,443 cash and cash equivalents, \$1,377,135 is considered designated for specific purposes. The \$1,377,135 consists of \$722,458 of sponsored research contract amounts received in advance of being earned and \$654,677 of payables and accruals to third parties under existing royalty, license and contract agreements.

Prepaid Expenses

The Research Foundation paid a portion of the royalties to two inventors upon receipt. However, since royalties are allocated over the term covered by royalty, rather than upon receipt, the inventor payments are recorded as a prepaid expense.

Depreciation

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

Deferred Revenue

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

University Support of the Research Foundation

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

The direct costs related to sponsored research contracts on occasion exceed budget or are otherwise disallowed under the contract. In certain circumstances, those overages and disallowance have been paid by The University. During the fiscal years ended June 30, 2005 and 2004, The University paid \$5,266 and \$8,349, respectively of budget overages and disallowances related to research contracts recorded by the Research Foundation. The overages and disallowances are reflected in the financial statements.

For the fiscal years ended June 30, 2005 and 2004, in-kind support in the amount of \$75,059 and \$44,593 was provided by the University for sponsored research contracts. This support was in the form of wages for the principal investigators and cost share provided for equipment. This is reflected in the financial statements as a contribution and as an expense when the services are provided.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Research Foundation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The University of Akron Research Foundation

Notes to the Financial Statements

3. Receivables

Receivables consist of monies due the Research Foundation at June 30, 2005 and 2004 from sponsored research contracts, license and option agreements and for reimbursements of patent expenses by licensees.

	2005	2004
Sponsored research	\$ 98,739	\$ 162,510
Licenses	75,329	50,673
Interest receivable	8,432	1,511
Other receivables	24,017	-
Patent reimbursements	-	5,920
	<u>\$ 206,517</u>	<u>\$ 220,614</u>

4. Equipment

On January 1, 2005, the Research Foundation received a donation of equipment at a fair market value of \$152,725 and cash in the amount of \$20,648 from Ohio Polymer Enterprise Development (OPED). OPED operated for the benefit of the business and industrial communities to expand and develop polymer enterprises in Ohio. OPED dissolved its business operations in December 2004 and the Research Foundation received its remaining funds and equipment. The laboratory equipment is available for use by start up enterprises. The fixed assets will be depreciated over the remaining life of the equipment using the straight line method.

5. Payables

The Research Foundation reimburses The University for direct and indirect costs incurred by the University related to sponsored research contracts managed by the Research Foundation. The University of Akron payable represents those direct and indirect costs incurred by The University before, and not paid by the Research Foundation until after, June 30, 2005 and 2004.

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 payables are undistributed indirect costs at June 30, 2005 and 2004.

Portions of the indirect costs related to administrative departments are payable to the offices of General Counsel, Finance and Research Services. The administrative departments payables are undistributed indirect costs at June 30, 2005 and 2004.

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, 2005 and 2004.

The University of Akron Research Foundation

Notes to the Financial Statements

5. Payables (continued)

	2005	2004
The University of Akron	\$ 150,828	\$ 115,746
Inventors & colleges	209,660	158,024
Administrative departments	170,587	93,396
Other payables	3,619	-
Royalties	95,609	49,338
	<u>\$ 630,303</u>	<u>\$ 416,504</u>

6. Accrued Expenses

The accrued expenses at June 30, 2005 and 2004 are for known future expenses for the technical marketer and principal investigators based on the royalty receivable at June 30, 2005 and 2004.

	2005	2004
Accrued expenses	<u>\$ 24,374</u>	<u>\$ 29,683</u>

7. Accrued Professional Fees

The professional fees are for known services related to each fiscal year, which have not been invoiced at June 30, 2005 and 2004, respectively.

8. Deferred Revenue

The Research Foundation receives advance payment for sponsored research contracts and license agreements which is recorded as deferred revenue. At June 30, 2005 and 2004, the Research Foundation had deferred revenue from the following sources:

	2005	2004
Sponsored research	\$ 890,711	\$ 802,908
Licenses	240,803	187,500
	<u>\$ 1,131,514</u>	<u>\$ 990,408</u>

9. Pilot Plant

On January 1, 2005, the Research Foundation took over the operations a pilot plant (lab facilities) on Gilchrist Road in Akron, Ohio. A nominal fee is charged to start up enterprises for use of the lab. Related expenses for managerial services and supplies are recorded on the Statement of Activities. In-kind support for the use of the leased space rent free is provided by Omnoua Solutions, Inc. In-kind rent in the amount of \$21,000 is included in Pilot Plant Income and Expense on the Statements of Activities.

The University of Akron Research Foundation

Notes to the Financial Statements

10. Investments At Cost

The Research Foundation holds two long-term investments consisting of common equity interests in the companies listed below. Both investments are currently carried at cost as neither entity has sufficient history or verifiable public data to enable a fair value assessment. During 2005, the Research Foundation received a 5% equity stake in NO Labs, a technology start up company, and the potential for future royalty payments in exchange for a technology license held by the Research Foundation. Also, while additional shares in Millimed Holdings were received in 2005, the research Foundation's stake in the company remains at 2%. The Research Foundation does not exercise significant influence over the operating and financial policies of the investees. These holdings are periodically evaluated to determine if there have been other than temporary declines below book value. A variety of factors are considered when determining if a decline in value below book value is other than temporary, including, among others, the financial condition and prospects of the investee.

	2005	2004
Millimed Holdings, Inc.	\$ 159,000	\$ 159,000
NO Labs AB	50,000	-
	<u>\$ 209,000</u>	<u>\$ 159,000</u>

11. Investments – University Innovation Ventures

University Innovation Ventures (“UIV”) is a wholly-owned, for profit subsidiary of the Research Foundation. Chartered in May 2005, UIV's mission is to further the University's efforts to form partnerships with regional organizations and develop technology commercialization. The Research Foundation owns all 100 shares of the newly formed entity. The results of operations and financial position of UIV are consolidated in the statements of the Research Foundation. During 2005, UIV had no activity but maintained a \$1,000 cash balance.

12. Other Investments

Other Investments as of June 30, 2005 consisted of:

	2005
Certificate of Deposit, Maturity date 9/27/05, interest rate 2.97%	\$ 200,000
Federal Home Loan Mort. Corp, Maturity date 11/5/05, interest rate 3.22%	199,903
Certificate of Deposit, Maturity date 12/23/05, interest rate 3.21%	200,000
Certificate of Deposit, Maturity date 2/05/06, interest rate 3.55%	<u>250,000</u>
	<u>\$ 849,903</u>

Report of Independent Auditors on Internal Control over Financial Reporting and on other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of The University of Akron Research Foundation ("Research Foundation"), a component unit of The University of Akron, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 November 4, 2005.

Compliance and Other Matters

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

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

PricewaterhouseCoopers LLP

September 29, 2005



**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
JANUARY 19, 2006**