

The University of Akron
Research Foundation
Consolidated Financial Statements
June 30, 2007 and June 2006



Mary Taylor, CPA
Auditor of State

Board of Directors
University of Akron Research Foundation
302 E Buchtel Commons
Akron, Ohio 44325

We have reviewed the *Report of Independent Auditors* of the University of Akron Research Foundation, Summit County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2006 through June 30, 2007. 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 "Robert R. Hinkle".

Robert R. Hinkle, CPA
Chief Deputy Auditor

November 29, 2007

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The University of Akron Research Foundation

Index to Consolidated Financial Statements June 30, 2007 and June 30, 2006

	Page
Report of Independent Auditors	1
Consolidated Statements of Financial Position at June 30, 2007 and 2006	2
Consolidated Statements of Activities for the years ended June 30, 2007 and 2006	3
Consolidated Statements of Cash Flows for the years ended June 30, 2007 and 2006	4
Notes to the Financial Statements	5-12
Supplemental Schedules	13-14
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .	15-16

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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 consolidated financial statements present fairly, in all material respects, the financial position of The University of Akron Research Foundation ("Research Foundation") at June 30, 2007 and 2006, 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 October 8, 2007 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 pages 15-16 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

October 8, 2007
Cleveland, Ohio

The University of Akron Research Foundation

Consolidated Statements of Financial Position At June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 3,251,576	\$ 688,719
Receivables, net	525,321	835,536
Prepaid expenses and other	152,276	151,200
Deposits	10,458	-
Other investments	1,600,000	2,850,000
Total current assets	<u>5,539,631</u>	<u>4,525,455</u>
Investments at cost	381,691	217,296
Property, plant and equipment, net	4,006,461	236,844
Total long term assets	<u>4,388,152</u>	<u>454,140</u>
Total assets	<u>\$ 9,927,783</u>	<u>\$ 4,979,595</u>
Liabilities and Net Assets		
Payables	\$ 1,214,738	\$ 1,277,263
Accrued expenses	106,605	37,837
Accrued professional fees	28,155	22,100
Deferred revenue	756,795	1,157,086
Total current liabilities	<u>2,106,293</u>	<u>2,494,286</u>
Long term note payable	<u>2,925,000</u>	<u>-</u>
Total long term liabilities	<u>2,925,000</u>	<u>-</u>
Total liabilities	<u>5,031,293</u>	<u>2,494,286</u>
Total net assets - unrestricted	<u>4,896,490</u>	<u>2,485,309</u>
Total liabilities and net assets	<u>\$ 9,927,783</u>	<u>\$ 4,979,595</u>

The accompanying notes are an integral part of these financial statements

The University of Akron Research Foundation

Consolidated Statements of Activities For the Years Ended June 30, 2007 and 2006

	2007	2006
Revenues:		
License royalties and fees	\$ 6,379,803	\$ 1,962,295
Sponsored research	1,612,653	1,804,251
Value received for license	139,395	62,296
Pilot plant income	57,844	88,341
Research funding	182,999	112,569
Cost share support	11,000	48,230
Interest income	288,351	117,472
Patent fee reimbursement	152,744	-
Contributions	-	80,000
Rental income	60,381	-
Miscellaneous income	257,776	135,782
Total revenues	<u>9,142,946</u>	<u>4,411,236</u>
Expenses:		
Program services:		
Royalty distributions	2,910,954	840,426
Technical marketing	1,264,299	269,127
Allocated indirect costs	293,333	188,631
Direct costs	1,254,796	1,390,109
Pilot plant expense	72,016	79,349
Research support	299,099	91,732
Support of SBDC	18,050	127,722
Scholarships	27,219	-
Donated equipment	93,108	-
Bad debt expense	37,582	116,640
Cost share support	11,000	48,230
License impairment	-	80,000
Supporting services:		
Professional fees	126,182	40,726
Wage expense	49,643	45,906
Public relations	126,149	55,529
Depreciation expense	54,375	46,679
Insurance	8,406	4,572
Interest expense	26,189	-
Building operating expense	34,221	-
Office expense	25,144	13,295
Miscellaneous expense	-	996
Total expenses	<u>6,731,765</u>	<u>3,439,669</u>
Change in net assets	2,411,181	971,567
Net assets - unrestricted, beginning of year	<u>2,485,309</u>	<u>1,513,742</u>
Net assets - unrestricted, end of year	<u>\$ 4,896,490</u>	<u>\$ 2,485,309</u>

The accompanying notes are an integral part of these financial statements

University of Akron Research Foundation

Consolidated Statements of Cash Flows For the Years Ended June 30, 2007 and 2006

	2007	2006
Operating activities:		
Change in net assets	\$ 2,411,181	\$ 971,567
Value received for license	(150,000)	(60,000)
Donation of equipment	93,108	(120,000)
Depreciation expense	54,375	46,679
License impairment	-	80,000
Share in net loss (income) of equity investment	10,605	(2,296)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Receivables	310,215	(629,020)
Prepaid expenses	(1,076)	(5,120)
Payables and accrued expenses	12,298	661,173
Deferred revenue	(360,291)	25,573
Net cash provided by operating activities	<u>2,380,415</u>	<u>968,556</u>
Investing activities:		
Change in investments	1,225,000	(2,025,097)
Deposits	(10,458)	-
Purchase of buildings and equipment	(3,957,100)	(43,183)
Net cash used in investing activities:	<u>(2,742,558)</u>	<u>(2,068,280)</u>
Financing activities:		
Borrowing on long term debt	<u>2,925,000</u>	<u>-</u>
Net cash provided by financing activities:	<u>2,925,000</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	2,562,857	(1,099,724)
Cash and cash equivalents, beginning of year	<u>688,719</u>	<u>1,788,443</u>
Cash and cash equivalents, end of year	<u>\$ 3,251,576</u>	<u>\$ 688,719</u>

The accompanying notes are an integral part of these financial statements

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

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.

Akron Innovation Campus, LLC ("AIC"), a wholly owned subsidiary of the Research Foundation, is consolidated in these statements. AIC was formed to hold two buildings and related property purchased on May 14, 2007.

2. 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 subsidiary, AIC. All significant inter-company transactions have been eliminated in consolidation.

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, 2007 and 2006, the Research Foundation carried a liability of \$293,924 and \$447,477 respectively to The University for this activity (see Note 7).

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

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

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

Rental income received from the property held by AIC 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. Of the \$3,251,576 of cash and \$1,600,000 of certificates of deposit at June 30, 2007, \$1,992,273 is considered designated for specific purposes. The \$1,992,273 consists of \$440,625 of sponsored research contract amounts received in advance of being earned and \$1,551,648 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. Prepaid insurance is also included.

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 using 5 years. The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

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 disallowances have been paid by The University. During the fiscal years ended June 30, 2007 and 2006, The University paid \$9,554 and \$218, 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, 2007 and 2006, in-kind support in the amount of \$11,000 and \$48,012, 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 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

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. Receivables

Receivables consist of monies due the Research Foundation at June 30, 2007 and 2006 from sponsored research contracts, license, rents and for reimbursements of patent expenses by licensees. An allowance account was first established for doubtful receivables in 2006. After known uncollectible accounts are deducted, 5% of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

	2007	2006
Sponsored research	\$ 235,097	\$ 131,845
Licenses	48,585	546,032
Rents	27,106	-
Interest receivable	48,701	56,781
Other receivables	192,054	140,878
Allowance for doubtful accounts	<u>(26,222)</u>	<u>(40,000)</u>
	<u>\$ 525,321</u>	<u>\$ 835,536</u>

4. Investments At Cost

The Research Foundation holds cost-based long-term investments consisting of common equity interests in the companies listed below.

	2007	2006
Millimed Holdings, Inc.	\$ 159,000	\$ 159,000
Mempro Ceramics Corporation	180,000	30,000
Greater Akron Investment Partners, LLC	25,000	25,000
North Coast Angel Fund	25,000	-
University Innovation Ventures	<u>(7,309)</u>	<u>3,296</u>
	<u>\$ 381,691</u>	<u>\$ 217,296</u>

During 2007, the Research Foundation received additional shares of Mempro Ceramics Corporation, a ceramics filtration start up company, for an exclusive option to license the University's technology. Also, the Research Foundation invested \$25,000 in North Coast Angel Fund for one unit in the limited liability company which provides investment capital for the commercialization of innovations in life science and physical sciences in Northeast Ohio.

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

The Research Foundation does not exercise significant influence over the operating and financial policies of the investees. These minority interests are accounted for under the cost method and are included in long term investments. These investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors are considered when determining if a decline in fair value below book value is other than temporary, including among others, the financial condition and prospects of the investee.

In January 2006, University Innovation Ventures ("UIV") issued shares to the original founders of UIV for consideration of their service to the company; each owns 51 shares or 25.25% of UIV. The Research Foundation owns 100 shares or 49.5% of UIV. This investment is reported under the equity method. The value of this equity at June 30, 2007 and 2006 is (\$7,309) and \$3,296, respectively. UIV's mission is to further The University's efforts to form partnerships with regional organizations and develop technology commercialization.

5. Other Investments

Other Investments as of June 30, 2007 and 2006 consists of:

	2007	2006
Certificate of Deposit, Maturity date 9/04/06, interest rate 4.55%	-	300,000
Certificate of Deposit, Maturity date 12/22/06, interest rate 4.64%	-	200,000
Certificate of Deposit, Maturity date 10/17/06, interest rate 4.85%	-	350,000
Certificate of Deposit, Maturity date 1/16/07, interest rate 4.64%	-	300,000
Certificate of Deposit, Maturity date 2/05/07, interest rate 4.40%	-	200,000
Certificate of Deposit, Maturity date 8/09/06, interest rate 4.65%	-	350,000
Certificate of Deposit, Maturity date 10/09/06, interest rate 4.89%	-	650,000
Certificate of Deposit, Maturity date 2/08/07, interest rate 5.00%	-	500,000
Certificate of Deposit, Maturity date 8/18/07, interest rate 5.30%	200,000	-
Certificate of Deposit, Maturity date 8/21/07, interest rate 5.25%	500,000	-
Certificate of Deposit, Maturity date 10/18/07, interest rate 5.30%	200,000	-
Certificate of Deposit, Maturity date 12/31/07, interest rate 5.10%	200,000	-
Certificate of Deposit, Maturity date 2/12/08, interest rate 5.35%	250,000	-
Certificate of Deposit, Maturity date 2/12/08, interest rate 5.35%	250,000	-
	<u>250,000</u>	<u>-</u>
	<u>\$ 1,600,000</u>	<u>\$ 2,850,000</u>

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

6. Property, Plant and Equipment

Property, plant and equipment consist of:

	2007	2006
Land	\$ 290,607	\$ -
Buildings and building improvements	3,666,493	-
Equipment	152,725	315,908
Total property, plant and equipment	4,109,825	315,908
Less accumulated depreciation	103,364	79,064
Net carrying amount	\$4,006,461	\$ 236,844

Two multi-tenant office buildings and the related land at 411 and 441 Wolf Ledges, adjacent to The University, were purchased on May 14, 2007 for \$3,900,000 plus acquisition costs of \$50,000.

During 2007, equipment of \$93,108 was donated by the Research Foundation to The University.

7. Payables

The Research Foundation reimburses The University for direct and indirect costs incurred by The University related to sponsored research contracts managed by the Research Foundation. The University of Akron payable represents those direct and indirect costs incurred by The University before, and not paid by the Research Foundation until after, June 30, 2007 and 2006.

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, 2007 and 2006.

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, 2007 and 2006.

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

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 is paid to a technical marketer before any distributions are made. The Royalties payable represents undistributed royalties at June 30, 2007 and 2006.

	2007	2006
The University of Akron	\$ 293,924	\$ 447,477
Inventors & colleges	263,520	190,199
Administrative departments	355,429	243,410
Other payables	52,903	232,751
Royalties	248,962	163,426
	<u>\$ 1,214,738</u>	<u>\$ 1,277,263</u>

8. Accrued Expenses

The accrued expenses June 30, 2007 and 2006 are for known future expenses for the technical marketer and principal investigators based on the royalty receivable at June 30, 2007 and 2006. AIC has accrued expenses for property taxes and interest expense.

9. Accrued Professional Fees

The professional fees are for known services related to fiscal years 2007 and 2006, respectively, which have not been paid as of year end.

10. Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts and license agreements which is recorded as deferred revenue. At June 30, 2007 and 2006, the Research Foundation had deferred revenue from the following sources:

	2007	2006
Sponsored research	\$ 554,646	\$ 913,336
Licenses	187,500	243,750
Advance rent	14,649	-
	<u>\$ 756,795</u>	<u>\$ 1,157,086</u>

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

11. Note Payable

AIC entered into a \$2,925,000, fifteen year note with CharterOne Bank on May 14, 2007 for the purchase of two buildings on Wolf Ledges in Akron, Ohio. AIC entered into an interest rate swap agreement ("swap") with a swap counterparty on a notional amount equal to one-third of the loan amount or \$975,000. This portion of the loan is based on the one month LIBOR rate plus 1%. This swap was determined to be an ineffective hedge, and accordingly, its fair value is recorded as a component of interest expense. The initial interest rate for calculation purposes was 5.32%. The interest rate for the fixed portion of the loan, \$1,950,000 is 6.39%. The loan is interest only for the first three years. The first principal payment is due on June 11, 2010.

Future maturities of debt for the years ended June 30:

2008	\$	-
2009		-
2010		1,816
2011		30,083
2012		34,964
Thereafter		2,858,137
	\$	<u>2,925,000</u>

12. Pilot Plant

The Research Foundation maintains a pilot plant (lab facilities) on Gilchrist Road in Akron, Ohio. A nominal fee is charged to start up enterprises for use of the lab. Related expenses for managerial services and supplies are recorded on the Statement of Activities. In-kind support for the use of the space rent free is provided by Omnova Solutions, Inc. In-kind rent in the amount of \$42,000 is included in Pilot Plant Income and Expense on the Statement of Activities for both 2007 and 2006.

13. Operating Lease Rentals

AIC has operating lease agreements with 12 tenants at the two professional buildings. Rental income is recognized over the life of the operating lease. As of June 30, 2007, the minimum future rentals on the noncancellable portion of the operating lease rentals aggregates \$993,430 and are due in the five succeeding years as follows:

Future Operating Lease Rentals:

2008	\$	240,228
2009		214,469
2010		209,288
2011		209,288
2012		120,157
	\$	<u>993,430</u>

University of Akron Research Foundation

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2007 and 2006

14. Related Parties

The Research Foundation is a minority shareholder in UIV, see note 4. The Research Foundation has a contractual agreement with UIV to perform services at a stated price. For the year ended June 30, 2007 and 2006, the Research Foundation paid \$100,276 and \$91,732, respectively to UIV for materials investigation. At June 30, 2007, a receivable of \$17,639 has been recorded for research activities being conducted by UIV in connection with The University and University faculty.

The Research Foundation's activity is also reported as a component unit of The University in its financial statements.

15. Significant Event

In August 2006, the Research Foundation received a one time royalty of five million dollars from a pharmaceutical company for technology developed by several University inventors. The results of this one time payment affect the statement of activities with an increase in royalty revenue and related increases in payments to the inventors and the marketer.

University of Akron Research Foundation

Supplemental Schedule - Consolidating Statement of Financial Position At June 30, 2007

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 3,176,680	\$ 74,896	-	\$ 3,251,576
Receivables, net	498,215	27,106	-	525,321
Prepaid expenses	152,276	-	-	152,276
Utility deposits	-	10,458	-	10,458
Other investments	1,600,000	-	-	1,600,000
Total current assets	5,427,171	112,460	-	5,539,631
Investments at cost	381,691	-	-	381,691
Investment in subsidiary	1,040,623	-	(1,040,623)	-
Property, plant and equipment, net	61,090	3,945,371	-	4,006,461
Total long term assets	1,483,404	3,945,371	(1,040,623)	4,388,152
Total assets	\$ 6,910,575	\$ 4,057,831	\$ (1,040,623)	\$ 9,927,783
Liabilities and Net Assets				
Payables	\$ 1,190,634	\$ 24,104	\$ -	\$ 1,214,738
Accrued expenses	39,124	67,481	-	106,605
Accrued professional fees	28,155	-	-	28,155
Deferred revenue	742,146	14,649	-	756,795
Total current liabilities	2,000,059	106,234	-	2,106,293
Long term note payable	-	2,925,000	-	2,925,000
Total long term liabilities	-	2,925,000	-	2,925,000
Total liabilities	2,000,059	3,031,234	-	5,031,293
Member contributions	-	1,040,623	(1,040,623)	-
Total liabilities and member equity	2,000,059	4,071,857	(1,040,623)	5,031,293
Total net assets - unrestricted	4,910,516	(14,026)	-	4,896,490
Total liabilities and net assets	\$ 6,910,575	\$ 4,057,831	(1,040,623)	\$ 9,927,783

University of Akron Research Foundation

Supplemental Schedule - Consolidating Statement of Activities For the Year Ended June 30, 2007

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Consolidated
Revenues:				
License royalties and fees	\$ 6,379,803	\$ -	\$ -	\$ 6,379,803
Sponsored research	1,612,653	-	-	1,612,653
Value received for license	139,395	-	-	139,395
Pilot plant income	57,844	-	-	57,844
Research funding	182,999	-	-	182,999
Cost share support	11,000	-	-	11,000
Interest income	288,351	-	-	288,351
Patent fee reimbursement	152,744	-	-	152,744
Rental income	-	60,381	-	60,381
Miscellaneous income	257,776	-	-	257,776
Total revenues	9,082,565	60,381	-	9,142,946
Expenses:				
Royalty distributions	2,910,954	-	-	2,910,954
Technical marketing	1,264,299	-	-	1,264,299
Allocated indirect costs	293,333	-	-	293,333
Direct costs	1,254,796	-	-	1,254,796
Pilot plant expense	72,016	-	-	72,016
Research support	299,099	-	-	299,099
Support of SBDC	18,050	-	-	18,050
Scholarships	27,219	-	-	27,219
Donated equipment	93,108	-	-	93,108
Bad debt expense	37,582	-	-	37,582
Cost share support	11,000	-	-	11,000
Professional fees	124,007	2,175	-	126,182
Wage expense	49,643	-	-	49,643
Public relations	126,149	-	-	126,149
Depreciation expense	42,646	11,729	-	54,375
Insurance	8,406	-	-	8,406
Interest expense	-	26,189	-	26,189
Building operating expense	-	34,221	-	34,221
Office expense	25,048	96	-	25,144
Total expenses	6,657,355	74,410	-	6,731,765
Change in net assets	2,425,210	(14,029)	-	2,411,181
Net assets - unrestricted, beginning of year	2,485,309	-	-	2,485,309
Net assets - unrestricted, end of year	\$ 4,910,519	\$ (14,029)	\$ -	\$ 4,896,490

**Report of Independent Auditors 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***

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 (the "Research Foundation") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 8, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain other internal control matters that we reported to management of the Research Foundation in a separate letter dated October 8, 2007.

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 or other matters 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 is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 8, 2007
Cleveland, Ohio



Mary Taylor, CPA
Auditor of State

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
DECEMBER 13, 2007**