

The University of Akron Research Foundation

**Consolidated Financial Statements
with Additional Information
June 30, 2011 and 2010**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the University of Akron Research Foundation, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The University of Akron Research Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 3, 2012

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The University of Akron Research Foundation

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Independent Auditor's Report

To the Board of Directors
The University of Akron
Research Foundation

We have audited the accompanying consolidated statement of financial position of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of The University of Akron, as of June 30, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Research Foundation's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Akron Research Foundation as of June 30, 2011 and 2010 and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011 on our consideration of The University of Akron Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on pages 21-22 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 audits.

Plante & Moran, PLLC

Toledo, Ohio
October 10, 2011

The University of Akron Research Foundation

Consolidated Statement of Financial Position

	June 30	
	2011	2010
Assets		
Cash and cash equivalents	\$ 2,300,697	\$ 2,545,919
Short-term investments (Notes 3 and 4)	5,991,323	8,278,749
Receivables - Net (Note 5)	1,209,605	1,046,093
Prepaid expenses and other	17,572	92,780
Total current assets	9,519,197	11,963,541
Long-term investments (Note 3)	292,352	371,966
Property, plant, and equipment - Net (Note 6)	5,250,604	4,469,937
Total long-term assets	5,542,956	4,841,903
Total assets	<u>\$ 15,062,153</u>	<u>\$ 16,805,444</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 7)	\$ 2,431,588	\$ 2,096,002
Accrued expenses	270,969	260,563
Current portion of note payable (Note 9)	52,547	49,301
Fair value of interest rate swap (Notes 4 and 9)	371,064	434,550
Accrued professional fees	26,000	24,750
Deferred revenue (Note 8)	4,312,663	6,716,204
Total current liabilities	7,464,831	9,581,370
Long-term note payable (Note 9)	2,819,066	2,871,613
Total liabilities	10,283,897	12,452,983
Net Assets - Unrestricted	<u>4,778,256</u>	<u>4,352,461</u>
Total liabilities and net assets	<u>\$ 15,062,153</u>	<u>\$ 16,805,444</u>

The University of Akron Research Foundation

Consolidated Statement of Activities

	Year Ended June 30	
	2011	2010
Revenue		
Sponsored research	\$ 1,694,287	\$ 1,650,035
License royalties and fees	315,463	279,425
Polymer training	2,441,340	2,134,135
Rental income	573,396	515,791
Research funding	93,750	194,975
Interest income	166,552	108,202
Patent fee reimbursement	164,453	18,000
Experimental services	759,535	245,878
Unrealized gain on investments	422,511	224,997
Impairment of investment (Note 3)	(120,000)	-
Cost share support	341,843	104,236
Miscellaneous income	295,083	194,040
Total revenue	7,148,213	5,669,714
Expense		
Program services:		
Direct costs	1,134,746	1,103,752
Allocated indirect costs	460,288	486,302
Royalty distributions	171,172	153,666
Experimental services	690,607	227,903
Polymer training expense	1,892,327	1,221,231
Research support	482,099	497,564
Regional economic support	90,750	149,906
Bad debt expense	239,758	140,874
Cost share support	341,843	104,236
Total program services	5,503,590	4,085,434
Support services:		
Professional fees	36,448	25,834
Wage and benefits expense	149,922	110,820
Public relations	96,644	81,561
Depreciation and amortization expense	277,581	210,003
Insurance	9,552	5,608
Interest expense	73,689	266,714
Building operating expense	506,427	480,853
Office expense	68,565	62,560
Total support services	1,218,828	1,243,953
Total expenses	6,722,418	5,329,387
Change in Net Assets	425,795	340,327
Net Assets - Beginning of year	4,352,461	4,012,134
Net Assets - End of year	\$ 4,778,256	\$ 4,352,461

The University of Akron Research Foundation

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ 425,795	\$ 340,327
Adjustments to reconcile change in net assets to net cash from operating activities - Changes in operating assets and liabilities:		
Receivables	(403,270)	(425,122)
Prepaid expenses	60,603	(59,709)
Payables and accrued expenses	347,241	289,206
Deferred revenue	(2,403,541)	4,971,274
Impairment of investment	120,000	-
Depreciation and amortization expense	277,581	210,003
Bad debt expense	239,758	140,874
Unrealized gain on securities	(422,511)	(224,997)
Interest rate swap	(63,486)	127,673
Net cash (used in) provided by operating activities	(1,821,830)	5,369,529
Cash Flows from Investing Activities		
Net purchases (sales) of investments	2,669,551	(4,471,390)
Purchase of equipment	(1,043,642)	(612,877)
Net cash provided by (used in) investing activities	1,625,909	(5,084,267)
Cash Flows from Financing Activities - Payments on debt	(49,301)	(4,086)
(Decrease) Increase in Cash and Cash Equivalents	(245,222)	281,176
Cash and Cash Equivalents - Beginning of year	2,545,919	2,264,743
Cash and Cash Equivalents - End of year	<u>\$ 2,300,697</u>	<u>\$ 2,545,919</u>
Supplemental Disclosure of Cash Flow Information -		
Cash paid for interest	<u>\$ 138,373</u>	<u>\$ 139,041</u>

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 1 - Organization

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

The Research Foundation is governed by an 11-member board of directors (the "Board"). The Board includes the University president, the University vice president for research, three University directors designated by the University president, and six non-University members elected by the Board.

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

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 subsidiary, AIC. All significant intercompany transactions have been eliminated in consolidation.

Principal Revenue and Expenses - The Research Foundation's principal revenue is derived from sponsored research contracts, polymer training, license agreements, and rental activity.

Sponsored research contracts are agreements for specific research, which is performed for a sponsor by the University. The revenue is 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 revenue 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.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2009, the Research Foundation has partnered with the Saudi Basic 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 per the memo of understanding. These funds are included in deferred revenue on the consolidated statement of financial position and total \$3,371,410 and \$5,812,749 as of June 30, 2011 and 2010, respectively (see Note 8).

License revenue represents 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.

Rental income received is recorded in the month rent is due.

Cash and Cash Equivalents - The Research Foundation considers all demand deposits, certificates of deposit, and money market funds with an original maturity of three months or less to be cash and cash equivalents.

Concentration of Credit Risk - The Research Foundation maintains cash balances at six banks and the accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2011 and 2010. As of June 30, 2011 and 2010, the Research Foundation had uninsured deposits totaling approximately \$765,000 and \$1,070,000, respectively.

The Research Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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 reasonably possible that changes in the values 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 and Other - 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 in prepaid expenses.

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 and equipment is depreciated over five or seven years. Tenant improvements are depreciated over the term of the lease, two to five years, 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.

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.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

In particular, the Research Foundation has entered into an interest rate swap agreement maturing in May 2022. The swap is designated as a cash flow hedge used to manage the risk associated with interest rates on fixed-rate borrowings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of June 30, 2011 and 2010, the Research Foundation held interest rate swaps with a total notional amount of \$1,950,000. Amounts recognized on the interest rate swaps of \$63,486 and (\$127,673) have been recognized in interest expense for the years ended June 30, 2011 and 2010, respectively.

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, revenue is 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 as of June 30, 2011 and 2010.

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 is not reflected within these consolidated financial statements.

For the fiscal years ended June 30, 2011 and 2010, in-kind support in the amount of \$341,843 and \$104,236, respectively, was provided by the University for sponsored research contracts. The support was in the form of wages for the principal investigators and cost sharing provided for the equipment. This is reflected in the consolidated 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Research Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2007.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 10, 2011, which is the date the consolidated financial statements were available to be issued.

Note 3 - Investments

Investments at June 30, 2011 and 2010 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	<u>2011</u>	<u>2010</u>
Marketable securities:		
Money market mutual funds	\$ 5,162,512	\$ 7,189,715
Stock equities	<u>828,811</u>	<u>637,798</u>
Total marketable securities	5,991,323	7,827,513
Alternative investments:		
Closely held stock and private equity (cost method)	195,490	290,490
Closely held stock and private equity (equity method)	<u>96,862</u>	<u>81,476</u>
Total alternative investments	292,352	371,966
Certificates of deposit	<u>-</u>	<u>451,236</u>
Total investments	<u>\$ 6,283,675</u>	<u>\$ 8,650,715</u>

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 3 - Investments (Continued)

On September 1, 2007, an account with Legacy Strategic Asset Management was opened to invest in marketable securities in accordance with the Research Foundation's investment policy. Legacy Strategic Asset Management is a subsidiary of Wachovia Securities and all securities are held by Wells Fargo Advisors at June 30, 2011 and 2010. Earnings on invested amounts are retained in the fund for reinvestment until such time as the Research Foundation authorizes delivery of all or part of the funds to or for the benefit of the University. An adjustment to market value resulted in an unrealized gain for each fiscal year.

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 the year ended June 30, 2011, an impairment analysis on a closely held stock resulted in a permanent decline in value of an equity holding. The decline is reflected in the consolidated statement of activities as an impairment of investment.

Note 4 - Fair Value Measurement

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Research Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 4 - Fair Value Measurement (Continued)

In instances where 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 following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 2010 and the valuation techniques used by the Research Foundation to determine those fair values.

Disclosures concerning assets and liabilities measured at fair value are as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2011
Assets				
Money market mutual funds:				
Goldman Sachs Financial	\$ 1,482,536	\$ -	\$ -	\$ 1,482,536
Federated short-term income	900,946	-	-	900,946
PIMCO securities	876,201	-	-	876,201
Intermediate and short-term bonds	396,828	-	-	396,828
Large blend	555,111	-	-	555,111
Large value	357,048	-	-	357,048
World allocation	251,749	-	-	251,749
Mid-cap growth	218,008	-	-	218,008
World bonds	124,085	-	-	124,085
Stock equities	828,811	-	-	828,811
Liabilities - Interest rate swap	\$ -	\$ (371,064)	\$ -	\$ (371,064)

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 4 - Fair Value Measurement (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2010

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2010
Assets				
Money market mutual funds:				
Federated short-term income	\$ 1,205,695	\$ -	\$ -	\$ 1,205,695
Goldman Sachs Financial	1,680,940	-	-	1,680,940
Government obligations	1,700,481	-	-	1,700,481
PIMCO securities	757,895	-	-	757,895
Other money market mutual funds	1,844,704	-	-	1,844,704
Stock equities	637,798	-	-	637,798
Liabilities - Interest rate swap	\$ -	\$ (434,550)	\$ -	\$ (434,550)

The Research Foundation measures property on a nonrecurring basis and records an impairment charge to the extent the carrying value of the asset is greater than fair value. The fair value of the investment is based primarily on Level 3 inputs including an equity method based on cost. As of June 30, 2011, the investment was valued at \$120,000 using this method, and is included in long-term investments on the consolidated statement of financial position. As of June 30, 2010, the carrying value of this property was \$240,000 and included in long-term investments on the consolidated statement of financial position (see Note 3 for further information). An impairment charge of \$120,000 was recognized on the property during the year ended June 30, 2011 and is included in the consolidated statement of activities.

Note 5 - Receivables

Receivables consist of amounts due to the Research Foundation at June 30, 2011 and 2010 from sponsored research contracts, license, rents, and for reimbursements of patent expenses by licensees. After known uncollectible accounts are deducted, 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 5 - Receivables (Continued)

	2011	2010
Sponsored research	\$ 692,652	\$ 810,990
Licenses	195,161	169,182
Experimental services	150,245	-
Rents	16,594	17,093
Other receivables	217,953	248,828
Allowance for doubtful accounts	<u>(63,000)</u>	<u>(200,000)</u>
Total	<u>\$ 1,209,605</u>	<u>\$ 1,046,093</u>

Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2011	2010
Land	\$ 406,925	\$ 290,607
Buildings and building improvements	4,871,540	4,089,254
Equipment	<u>831,830</u>	<u>686,792</u>
Total property, plant, and equipment	6,110,295	5,066,653
Less accumulated depreciation	<u>859,691</u>	<u>596,716</u>
Net carrying amount	<u>\$ 5,250,604</u>	<u>\$ 4,469,937</u>

Note 7 - Accounts Payable

The Research Foundation reimburses the University for direct and certain 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, 2011 and 2010.

The Research Foundation is also permitted to recover indirect costs related to sponsored research contracts. A portion of those indirect costs is payable to the inventor's college or department for use by inventors and colleges. The undistributed indirect costs at June 30, 2011 and 2010 are included in the payable to The University of Akron.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 7 - Accounts Payable (Continued)

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, 2011 and 2010.

	2011	2010
The University of Akron	\$ 1,523,296	\$ 1,596,028
Other payables	908,292	499,974
Total	<u>\$ 2,431,588</u>	<u>\$ 2,096,002</u>

Note 8 - Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts, a polymer training program, and license agreements, which is recorded as deferred revenue. At June 30, 2011 and 2010, the Research Foundation had deferred revenue from the following sources:

	2011	2010
Sponsored research	\$ 858,200	\$ 840,029
Polymer training	3,371,410	5,812,749
Licenses	5,000	41,364
Advance rent	78,053	22,062
Total	<u>\$ 4,312,663</u>	<u>\$ 6,716,204</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. AIC entered into an interest rate swap agreement (the "swap") with a swap counterparty on a notional amount equal to \$1,950,000. The interest rate for this portion of the debt is fixed at 6.39 percent. The fair value of the interest rate swap agreement is a liability of \$371,064 and \$434,550 at June 30, 2011 and 2010, respectively.

The interest rate on the variable portion of the loan, or \$921,613, is based on the one-month LIBOR plus 1 percent, an effective rate of 1.19 percent and 1.35 percent at June 30, 2011 and 2010, respectively. The loan required interest-only payments until June 2010, when the first principal payment was due. Under the terms of the agreement, monthly principal payments ranging from \$4,086 to \$8,246 are due through May 2022, when the remaining unpaid principal balance is due.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 9 - Note Payable (Continued)

The note payable is collateralized by certain real property, all personal property, and future rents of AIC. The Research Foundation has guaranteed the loan.

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

Years Ending June 30	Amount
2012	\$ 52,547
2013	56,010
2014	59,702
2015	63,636
2016	67,835
Thereafter	<u>2,571,883</u>
Total	<u>\$ 2,871,613</u>

Under the agreement with the bank, the Research Foundation is subject to various financial covenants. As of June 30, 2011, the Research Foundation was in compliance with all such covenants.

Note 10 - Operating Lease Rentals

AIC and UARF have operating lease agreements with 21 tenants at the three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2016. As of June 30, 2011 and 2010, leased buildings and building improvements are recorded at a cost of \$4,871,540 and \$4,089,254, respectively, with accumulated depreciation of \$573,725 and \$381,237, respectively. As of June 30, 2011, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,186,474 and are due in the five succeeding years as follows:

Years Ending June 30	Amount
2012	\$ 462,265
2013	308,503
2014	269,243
2015	89,589
2016	<u>56,874</u>
Total	<u>\$ 1,186,474</u>

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Operating Lease Rentals (Continued)

The Research Foundation entered into an equipment lease agreement with Akron Polymer Systems on February 8, 2011. The operating lease agreement leases the equipment in the pilot plant, operating at Gilchrist Road in Akron, Ohio, to Akron Polymer Systems for a period of 20 years. The terms require the lessee to pay 10 percent of all revenue generated by clients referred by the Research Foundation with an annual minimum of no less than \$3,000.

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, 2011 and 2010, the Research Foundation paid \$255,901 and \$360,053, respectively, to UIV for materials investigation. At June 30, 2011 and 2010, a receivable of \$17,639 has been recorded for research activities being conducted by UIV.

The University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2011 and 2010, the Research Foundation authorized distributions to the University in the amount of \$1,607,365 and \$1,590,054, respectively.

Additional Information



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To the Board of Directors
The University of Akron Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation as of and for the year ended June 30, 2011. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the basic consolidated financial statements. The information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

Toledo, Ohio
October 10, 2011

The University of Akron Research Foundation

Consolidating Statement of Financial Position June 30, 2011

	The University of			
	Akron Research	Akron Innovation		
	Foundation	Campus	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 1,847,633	\$ 453,064	\$ -	\$ 2,300,697
Short-term investments	5,991,323	-	-	5,991,323
Receivables - Net	1,193,321	16,284	-	1,209,605
Prepaid expenses and other	6,497	11,075	-	17,572
Total current assets	9,038,774	480,423	-	9,519,197
Long-term investments	292,352	-	-	292,352
Investment in subsidiary	2,039,670	-	(2,039,670)	-
Property, plant, and equipment - Net	1,145,932	4,104,672	-	5,250,604
Total long-term assets	3,477,954	4,104,672	(2,039,670)	5,542,956
Total assets	\$ 12,516,728	\$ 4,585,095	\$ (2,039,670)	\$ 15,062,153
Liabilities and Net Assets (Deficit)				
Liabilities				
Accounts payable	\$ 2,288,538	\$ 143,050	\$ -	\$ 2,431,588
Accrued expenses	209,568	61,401	-	270,969
Current portion of note payable	-	52,547	-	52,547
Fair value of interest rate swap	-	371,064	-	371,064
Accrued professional fees	26,000	-	-	26,000
Deferred revenue	4,279,791	32,872	-	4,312,663
Total current liabilities	6,803,897	660,934	-	7,464,831
Long-term note payable	-	2,819,066	-	2,819,066
Total	6,803,897	3,480,000	-	10,283,897
Member contributions	-	2,039,670	(2,039,670)	-
Total liabilities	6,803,897	5,519,670	(2,039,670)	10,283,897
Net Assets (Deficit) - Unrestricted	5,712,831	(934,575)	-	4,778,256
Total liabilities and net assets (deficit)	\$ 12,516,728	\$ 4,585,095	\$ (2,039,670)	\$ 15,062,153

The University of Akron Research Foundation

Consolidating Statement of Activities Year Ended June 30, 2011

	The University of		Eliminations	Total
	Akron Research Foundation	Akron Innovation Campus		
Revenue				
Sponsored research	\$ 1,694,287	\$ -	\$ -	\$ 1,694,287
License royalties and fees	315,463	-	-	315,463
Polymer training	2,441,340	-	-	2,441,340
Rental income	-	731,068	(157,672)	573,396
Research funding	93,750	-	-	93,750
Interest income	164,989	1,563	-	166,552
Patent fee reimbursement	164,453	-	-	164,453
Experimental services	759,535	-	-	759,535
Unrealized gain on investments	422,511	-	-	422,511
Impairment of investment	(120,000)	-	-	(120,000)
Cost share support	341,843	-	-	341,843
Miscellaneous income	295,083	-	-	295,083
Total revenue	6,573,254	732,631	(157,672)	7,148,213
Expenses				
Direct costs	1,134,746	-	-	1,134,746
Allocated indirect costs	460,288	-	-	460,288
Royalty distributions	171,172	-	-	171,172
Experimental services	690,607	-	-	690,607
Polmer training expense	1,892,327	-	-	1,892,327
Research support	482,099	-	-	482,099
Regional economic support	90,750	-	-	90,750
Bad debt expense	235,945	3,813	-	239,758
Cost share support	341,843	-	-	341,843
Professional fees	36,448	-	-	36,448
Wage and benefits expense	149,922	-	-	149,922
Public relations	96,644	-	-	96,644
Depreciation and amortization expense	76,769	200,812	-	277,581
Insurance	9,552	-	-	9,552
Interest expense	-	73,689	-	73,689
Building operating expense	193,294	470,805	(157,672)	506,427
Office expense	65,534	3,031	-	68,565
Total expenses	6,127,940	752,150	(157,672)	6,722,418
Change in Net Assets	445,314	(19,519)	-	425,795
Net Assets (Deficit) - Unrestricted - Beginning of year	5,267,517	(915,056)	-	4,352,461
Net Assets (Deficit) - Unrestricted - End of year	\$ 5,712,831	\$ (934,575)	\$ -	\$ 4,778,256

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 *Government Auditing Standards*

To the Board of Directors
The University of Akron
Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of The University of Akron, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 10, 2011. 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

To the Board of Directors
The University of Akron
Research Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's consolidated 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*.

We noted certain matters that we have reported to the management of the Research Foundation in a separate letter dated October 10, 2011.

This report is intended solely for the information and use of the Research Foundation's board of directors and management and the Auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

Toledo, Ohio
October 10, 2011



Dave Yost • Auditor of State

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 16, 2012