

# **The University of Akron Research Foundation and Subsidiaries**

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**Consolidated Financial Statements  
with Additional Information  
June 30, 2015 and 2014**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The University of Akron Research Foundation and Subsidiaries, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

January 15, 2016

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# **The University of Akron Research Foundation and Subsidiaries**

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## Independent Auditor's Report

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The University of Akron Research Foundation and Subsidiaries (the "Research Foundation"), a discretely presented component unit of The University of Akron, which comprise the consolidated statement of financial position as of June 30, 2015 and 2014 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Research Foundation and Subsidiaries as of June 30, 2015 and 2014 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Other Information**

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise The University of Akron Research Foundation and Subsidiaries' consolidated financial statements. The additional information, as shown on pages 19 and 20, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2015 on our consideration of the The University of Akron Research Foundation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Akron Research Foundation and Subsidiaries' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 6, 2015

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

	June 30	
	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 2,637,946	\$ 2,837,071
Short-term investments (Notes 3 and 4)	6,735,662	5,739,413
Receivables - Net (Note 5)	1,484,949	1,963,738
Prepaid expenses and other	81,844	52,851
Total current assets	10,940,401	10,593,073
Long-term investments (Note 3)	386,477	220,766
Property, plant, and equipment - Net (Note 6)	5,593,518	5,919,955
Total long-term assets	5,979,995	6,140,721
Total assets	<b>\$ 16,920,396</b>	<b>\$ 16,733,794</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 7)	\$ 3,602,988	\$ 3,235,888
Accrued expenses	277,193	402,356
Accrued professional fees	26,910	26,000
Deferred revenue (Note 8)	2,652,576	2,986,426
Current portion of note payable (Note 9)	67,835	63,636
Fair value of interest rate swap (Notes 4 and 9)	374,244	401,795
Total current liabilities	7,001,746	7,116,101
Long-term note payable (Note 9)	2,571,883	2,639,718
Total liabilities	9,573,629	9,755,819
<b>Net Assets - Unrestricted</b>	<b>7,346,767</b>	<b>6,977,975</b>
Total liabilities and net assets	<b>\$ 16,920,396</b>	<b>\$ 16,733,794</b>

# The University of Akron Research Foundation and Subsidiaries

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## Consolidated Statement of Activities

	Year Ended June 30	
	2015	2014
<b>Revenue</b>		
Polymer training	\$ 6,053,041	\$ 5,606,153
Sponsored research	3,249,192	2,902,462
Experimental services	804,677	910,667
Rental income	618,715	557,627
License royalties and fees	87,722	260,500
Research funding	409,547	594,946
Interest income	178,534	123,336
Patent fee reimbursement	40,092	76,861
Unrealized gain on investments	34,922	537,043
In-kind contributions	159,342	-
Cost share support	-	387,973
Other income	402,080	429,106
	12,037,864	12,386,674
<b>Expenses</b>		
Program services:		
Polymer training expense	5,136,591	4,726,222
Direct costs	2,544,490	2,194,093
Allocated indirect costs	636,077	604,987
Research support	992,998	915,987
Experimental services	620,856	678,430
Royalty distributions	70,497	94,771
Bad debt expense	57,192	140,835
Depreciation and amortization expense	106,673	106,932
Cost share support	-	387,973
	10,165,374	9,850,230
Support services:		
Wage and benefit expense	561,985	521,681
Building operating expense	352,721	509,693
Interest income - Change in swap value (Note 9)	(27,551)	(28,153)
Interest expense	126,029	128,715
Public relations	91,956	105,570
Depreciation and amortization expense	268,988	493,618
Professional fees	34,275	58,106
Office expense	65,288	90,947
Donation	-	800
Insurance	30,007	35,484
	1,503,698	1,916,461
Total support services	1,503,698	1,916,461
Total expenses	11,669,072	11,766,691
<b>Change in Net Assets</b>	368,792	619,983
<b>Net Assets - Beginning of year</b>	6,977,975	6,357,992
<b>Net Assets - End of year</b>	<b>\$ 7,346,767</b>	<b>\$ 6,977,975</b>

# The University of Akron Research Foundation and Subsidiaries

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## Consolidated Statement of Cash Flows

	Year Ended June 30	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 368,792	\$ 619,983
Adjustments to reconcile change in net assets to net cash from operating activities:		
Noncash items:		
Depreciation and amortization expense	375,661	600,550
Bad debt expense	57,192	140,835
Unrealized gain on securities	(34,922)	(537,043)
Change in interest rate swap	(27,551)	(28,153)
Changes in operating assets and liabilities:		
Receivables	421,597	162,248
Prepaid expenses	(41,234)	7,087
Payables and accrued expenses	242,846	529,454
Deferred revenue	(333,850)	303,384
Net cash provided by operating activities	1,028,531	1,798,345
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(1,127,038)	(297,224)
Purchase of buildings and equipment	(36,982)	(54,946)
Net cash used in investing activities	(1,164,020)	(352,170)
<b>Cash Flows from Financing Activities - Payments on debt</b>	(63,636)	(60,008)
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	(199,125)	1,386,167
<b>Cash and Cash Equivalents - Beginning of year</b>	2,837,071	1,450,904
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,637,946</b>	<b>\$ 2,837,071</b>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid for interest	<b>\$ 126,029</b>	<b>\$ 128,715</b>

# **The University of Akron Research Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements June 30, 2015 and 2014**

### **Note 1 - Organization**

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

The Research Foundation is governed by an eleven-member board of directors (the "Board"). The Board includes the University president, the University vice president for research, and three University directors whose appointments are directed by the University trustees and made by the University president. There are six non-University members elected by the Board.

The Research Foundation has three wholly owned subsidiaries at June 30, 2015 and 2014. Akron Innovation Campus LLC (AIC), Akron Surface Technologies, Inc. (ASTI), and PolyMedTech, Inc. (PMT) are consolidated in these statements.

AIC was formed to hold two buildings and related property purchased on May 14, 2007.

ASTI was formed as a C Corporation from a collaboration between the Research Foundation and a local manufacturing company and was created to provide engineered services to new markets. During fiscal years 2014 and 2013, the Research Foundation provided the operating capital required to start the company and is the majority stockholder as of June 30, 2015.

PMT was formed as a C Corporation by the Research Foundation to develop wound closure adhesives based on the research of University faculty. During fiscal year 2013, the Research Foundation provided the operating capital required to start the company and is the sole shareholder as of the June 30, 2015.

### **Note 2 - Summary of Significant Accounting Policies**

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

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Research Foundation and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

**Principal Revenues and Expenses** - The Research Foundation's principal revenue is derived from the Polymer training program, sponsored research contracts, and experimental services agreements.

# **The University of Akron Research Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements June 30, 2015 and 2014**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

Sponsored research contracts are agreements for specific research, which is performed for a sponsor by the University under three-party agreements. The 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.

Effective March 2015, sponsored research contracts will largely be two-party agreements between the sponsor and The University. The Research Foundation will not participate directly in sponsored research, except to complete current projects and to facilitate projects for the University, as needed. This change will reduce the Research Foundation's sponsored research revenue in future years.

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.

Since the year ended June 30, 2009, the Research Foundation has partnered with the Saudi Basic Industries Corporation and affiliates of ExxonMobil Chemical, the Technical Vocational Training Corporation, and the Saudi National Industrial Clusters Development Program in the Kingdom of Saudi Arabia to establish an elastomer technology vocational training institute. The Research Foundation's current agreement expires on to August 31, 2015. A new agreement extending to August 31, 2019 provides for the training, teaching, management, and other academic resources to advance polymer and materials education through the institute. The new agreement is lesser in scope than the initial contract. The related polymer training revenue is recognized on the percentage of completion based on costs incurred to date. Funds are received in advance each quarter. These funds are included in deferred revenue on the consolidated statement of financial position and total \$1,380,791 and \$1,420,733 as of June 30, 2015 and 2014, respectively (see Note 8).

Experimental services income is recognized on the accrual basis for services performed for corporate customers at labs at the University under three-party agreements.

Rental income received prior to the due date is recognized as deferred revenue. Rental income received in the month the rent is due is recognized as revenue.

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

# **The University of Akron Research Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements June 30, 2015 and 2014**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Concentration of Credit Risk** - The Research Foundation maintains cash balances at three banks in accounts which are insured by the Federal Deposit Insurance Corporation. These cash deposits may, at times, exceed the federally insured limits. The Research Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to independently insure all cash deposits. The Research Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash.

**Investments** - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Investments in which the Research Foundation has more than a minor interest are accounted for using the equity method. Under the equity method, the investment is carried at cost, adjusted for the Research Foundation's proportionate share of undistributed earnings or losses. Realized gains (losses) on investments are the difference between the proceeds received and the cost of investments sold. Net appreciation (depreciation) in the fair value of investments (including realized gains (losses) and unrealized gains (losses) and dividends and interest) is included in revenue in the consolidated statement of activities.

**Risks and Uncertainties** - The Research Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

**Prepaid Expenses** - Insurance and other expenses were paid in advance. The expenses related to the current fiscal year are recognized as expense and the balance is reflected in prepaid expenses on the consolidated statement of financial position.

**Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. The straight-line method of depreciation is used over the assets' estimated useful lives. The buildings' useful life is 39 years; equipment is depreciated over 5 years. Tenant improvements are depreciated over the term of the lease and building improvement useful lives range from 10 to 20 years. The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

# **The University of Akron Research Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements June 30, 2015 and 2014**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Fair Value of Financial Instruments** - The estimated fair value amounts have been determined by the Research Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Research Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. All investment securities are carried at fair value in the financial statements. The fair values of short-term financial instruments, including cash equivalents, accounts receivable, and accounts payable approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments. The inputs are based upon terms in contractual agreements. The fair values of these financial instruments are determined using Level 2 inputs.

**Interest Rate Swap** - The Research Foundation is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported in the consolidated statement of financial position at fair value.

In particular, the Research Foundation has entered into an interest rate swap agreement maturing in May 2022. Gains or losses and changes in the valuation of the swap are recognized on the consolidated statement of activities.

**Deferred Revenue** - Cash received in advance of being earned is recorded as deferred revenue. In the subsequent period when the revenue recognition criteria are met, 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 for the periods ended June 30, 2015 and 2014. There were no other board-designated net assets as of June 30, 2015 and 2014.

**University Support of the Research Foundation** - University employees provide administrative and management functions for the Research Foundation. The services and office space constitute in-kind contributions to the Research Foundation, the values of which are included as in-kind contributions and support service expenses on the consolidated statement of activities.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 2 - Summary of Significant Accounting Policies (Continued)

For the fiscal years ended June 30, 2015 and 2014, in-kind support in the amount of \$0 and \$387,973, respectively, was provided by the University for sponsored research contracts. This support was in the form of wages for the principal investigators and cost sharing provided for equipment. This is reflected in the consolidated financial statements as a contribution and as an expense.

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

**Upcoming Accounting Pronouncements** - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The standard will be effective for annual periods beginning after June 30, 2019.

**Subsequent Events** - The consolidated financial statements and related disclosures included evaluation of events up through and including October 6, 2015, which is the date the consolidated financial statements were available to be issued.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 3 - Investments

Investments at June 30, 2015 and 2014 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	<u>2015</u>	<u>2014</u>
Marketable securities - Stock equities and mutual funds (Note 3)	\$ 6,735,662	\$ 5,739,413
Alternative investments:		
Closely held stock and private equity (Equity method)	270,987	105,276
Closely held stock and private equity (Cost method)	<u>115,490</u>	<u>115,490</u>
Total alternative investments	<u>386,477</u>	<u>220,766</u>
Total investments	<u>\$ 7,122,139</u>	<u>\$ 5,960,179</u>

The Research Foundation's marketable securities are held with Wells Fargo and advised by the Legacy Strategic Asset Management Group. Earnings on invested amounts are retained in the fund for reinvestment until such time as the Research Foundation authorizes delivery of all or part of the funds to or for the benefit of the University.

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.

### Note 4 - Fair Value Measurements

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

In general, fair values determined by Level 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.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 4 - Fair Value Measurements (Continued)

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

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Research Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Research Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2015 and 2014, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and 2014 and the valuation techniques used by the Research Foundation to determine those fair values.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2015

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2015
<b>Assets - Short-term investments:</b>				
Fixed income	\$ 1,948,290	\$ -	\$ -	\$ 1,948,290
Large growth	677,461	-	-	677,461
Large value	686,475	-	-	686,475
Small- and mid-cap growth	659,925	-	-	659,925
Alternatives	1,386,159	-	-	1,386,159
Internationals	1,377,352	-	-	1,377,352
Total assets	<u>\$ 6,735,662</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,735,662</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ (374,244)</u>	<u>\$ -</u>	<u>\$ (374,244)</u>

**The University of Akron Research Foundation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**Note 4 - Fair Value Measurements (Continued)**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2014**

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

The fair value of the interest rate swap at June 30, 2015 and 2014 was determined primarily based on Level 2 inputs. The Research Foundation's estimate of the fair value of the swap is based on a valuation model that takes into account estimates of changes in interest rates based on yield curves and other market-based information as provided by the bank.

**Note 5 - Receivables**

Receivables consist of monies due to the Research Foundation at June 30, 2015 and 2014 from sponsored research contracts, licenses, rents, and other. After known uncollectible accounts are deducted, five percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts. The polymer training receivable is expected to be fully collected and, therefore, is not included in the general allowance calculation.

	2015	2014
Sponsored research	\$ 625,304	\$ 606,041
Licenses	20,500	173,833
Experimental services	206,598	244,866
Polymer training	354,066	324,310
Other	333,481	694,688
Allowance for doubtful accounts	<u>(55,000)</u>	<u>(80,000)</u>
Total	<u>\$ 1,484,949</u>	<u>\$ 1,963,738</u>

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ \$ 406,925	\$ 406,925
Buildings and building improvements	5,184,373	5,147,391
Equipment	<u>2,636,716</u>	<u>2,636,716</u>
Total property, plant, and equipment	8,228,014	8,191,032
Less accumulated depreciation	<u>(2,634,496)</u>	<u>(2,271,077)</u>
Net carrying amount	<u>\$ \$ 5,593,518</u>	<u>\$ 5,919,955</u>

Depreciation expense for the years ended June 30, 2015 and 2014 totaled \$363,419 and \$590,987, respectively.

### Note 7 - Accounts Payable

Accounts payable are apportioned as follows at June 30:

	<u>2015</u>	<u>2014</u>
The University of Akron	\$ 2,935,401	\$ 2,756,324
Other nonrelated parties	<u>667,587</u>	<u>479,564</u>
Total	<u>\$ 3,602,988</u>	<u>\$ 3,235,888</u>

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, 2015 and 2014.

The Research Foundation is also permitted to recover indirect costs related to sponsored research contracts. A portion of those indirect costs is payable to the principal investigator's college or department for use by principal investigator and colleges. The undistributed indirect costs at June 30, 2015 and 2014 are included in the payable to the University of Akron.

Portions of the indirect costs related to administrative departments are payable to the offices of general counsel, finance, and research services and are included in the payable to the University of Akron at June 30, 2015 and 2014.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 8 - Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts, a polymer training program, and rental income, which is recorded as deferred revenue. At June 30, 2015 and 2014, the Research Foundation had deferred revenue from the following sources:

	2015	2014
Sponsored research	\$ 1,235,148	\$ 1,529,913
Polymer training	1,380,791	1,420,733
Rental income	36,637	35,780
Total	<u>\$ 2,652,576</u>	<u>\$ 2,986,426</u>

### Note 9 - Note Payable

AIC entered into a \$2,925,000 15-year note with CharterOne Bank on May 14, 2007 for the purchase of two buildings on Wolf Ledges in Akron, Ohio. This loan included an interest rate swap agreement (swap) with a swap counterparty. The original notional amount of the loan was \$1,950,000 with a fixed rate of 6.39 percent.

The original notional amount of the variable portion of the loan was \$975,000. The interest rate on the variable portion is based on the one-month LIBOR plus 1 percent, an effective rate of 1.19 percent and 1.15 percent at June 30, 2015 and 2014, respectively.

The balance due on the note at June 30, 2015 and 2014 was \$2,639,718 and \$2,703,354, respectively.

As of June 30, 2015 and 2014, the swap agreement is summarized as follows:

	Change in Fair Value		Fair Value		Notional
	Classification	Amount	Classification	Amount	
Pay-fixed interest rate swap (receive-variable):					
June 30, 2015	Interest Income	\$ (27,551)	Debt	\$ 374,244	\$ 1,759,808
June 30, 2014	Interest income	\$ (28,153)	Debt	\$ 401,795	\$ 1,802,232

Interest income and expense on the swap are reported within support service expenses on the consolidated statement of activities.

Under the terms of the agreement, monthly principal payments ranging from \$5,274 to \$8,246 are due through May 11, 2022, when the remaining unpaid principal balance is due. The note payable is collateralized by certain real property, all personal property, and future rents of AIC. The Research Foundation has guaranteed the loan.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 9 - Note Payable (continued)

Under the agreement with the bank, the Research Foundation is subject to various financial covenants. As of June 30, 2015, the Research Foundation was in compliance with all such covenants.

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

Years Ending	Amount
<u>June 30</u>	
2016	\$ 67,835
2017	72,311
2018	77,077
2019	82,156
2020	87,563
Thereafter	<u>2,252,776</u>
Total	<u>\$ 2,639,718</u>

### Note 10 - Operating Lease Rentals

AIC and the Research Foundation have operating lease agreements with 18 tenants at the three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2031. As of June 30, 2015 and 2014, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,184,373 and \$5,147,391, respectively, with accumulated depreciation of \$1,419,677 and \$1,222,589, respectively.

The Research Foundation entered into an equipment lease agreement with Akron Polymer Systems (APS) on February 8, 2011. APS is a related party, as the Research Foundation is a 5 percent equity owner of the company. The operating lease agreement leases the Research Foundation's pilot plant equipment to Akron Polymer Systems for a period of 20 years. The terms require the lessee to pay 10 percent of all revenue generated by clients referred by the Research Foundation or no less than \$3,000. At June 30, 2015 and 2014, the equipment was recorded at a cost of \$137,683 with accumulated depreciation of \$137,683.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### Note 10 - Operating Lease Rentals (Continued)

As of June 30, 2015, the minimum future rentals on the non-cancelable portion of the operating lease rentals aggregate \$1,549,589 and are due in the fiscal years ending June 30 as follows:

	<u>Amount</u>
2016	\$ 593,557
2017	416,837
2018	243,948
2019	176,892
2020	85,355
Thereafter	<u>33,000</u>
Total	<u>\$ 1,549,589</u>

### Note 11 - Related Parties

The Research Foundation is a minority stockholder in University Innovation Ventures (UIV). The Research Foundation has the contractual agreement with UIV to perform services at a stated price. For the years ended June 30, 2015 and 2014, the Research Foundation paid \$106,429 and \$241,831, respectively, to UIV for materials investigation and project management. As of June 30, 2015 and 2014, the Research Foundation has recorded a receivable due from UIV of \$41,996 and \$76,896, respectively, and a payable of \$348,573 and \$213,596, respectively, which is included in net receivables and net payables on the consolidated statement of financial position.

The University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2015 and 2014, the Research Foundation paid \$5,093,770 and \$4,963,092, respectively, to the University for research and polymer training expenses.

### Note 12 - Line of Credit

On May 17, 2014, the Research Foundation obtained a \$2,500,000 revolving line of credit with Wells Fargo Bank. Interest on the revolver is at a fluctuating rate of one-month LIBOR plus 1.65 percent per annum. The line is secured by the Research Foundation's investment account with Wells Fargo. The line is set to expire March 17, 2016 and there was no amount outstanding at June 30, 2015 and 2014.

## **Additional Information**

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# The University of Akron Research Foundation and Subsidiaries

## Consolidating Statement of Financial Position

### June 30, 2015

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 2,295,006	\$ 293,999	\$ 40,369	\$ 8,572	\$ -	\$ 2,637,946
Investments at market	6,735,662	-	-	-	-	6,735,662
Receivables - Net	1,746,789	18,872	98,859	-	(379,571)	1,484,949
Prepaid expenses and other	49,079	31,186	1,579	-	-	81,844
<b>Total current assets</b>	<b>10,826,536</b>	<b>344,057</b>	<b>140,807</b>	<b>8,572</b>	<b>(379,571)</b>	<b>10,940,401</b>
Investments	386,477	-	-	-	-	386,477
Investment in subsidiary	1,968,105	-	-	-	(1,968,105)	-
Property, plant, and equipment - Net	1,907,869	3,632,562	53,087	-	-	5,593,518
<b>Total long-term assets</b>	<b>4,262,451</b>	<b>3,632,562</b>	<b>53,087</b>	<b>-</b>	<b>(1,968,105)</b>	<b>5,979,995</b>
<b>Total assets</b>	<b>\$ 15,088,987</b>	<b>\$ 3,976,619</b>	<b>\$ 193,894</b>	<b>\$ 8,572</b>	<b>\$ (2,347,676)</b>	<b>\$ 16,920,396</b>
<b>Liabilities and Net Assets (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,397,901	\$ 44,819	\$ 539,788	\$ 51	\$ (379,571)	\$ 3,602,988
Accrued expenses	223,399	53,794	-	-	-	277,193
Accrued professional fees	26,910	-	-	-	-	26,910
Deferred revenue	2,614,770	37,806	-	-	-	2,652,576
Current portion of note	-	67,835	-	-	-	67,835
Fair value of interest rate swap	-	374,244	-	-	-	374,244
<b>Total current liabilities</b>	<b>6,262,980</b>	<b>578,498</b>	<b>539,788</b>	<b>51</b>	<b>(379,571)</b>	<b>7,001,746</b>
Long-term note payable	-	2,571,883	-	-	-	2,571,883
<b>Total</b>	<b>6,262,980</b>	<b>3,150,381</b>	<b>539,788</b>	<b>51</b>	<b>(379,571)</b>	<b>9,573,629</b>
Member contributions	-	1,907,085	51,020	10,000	(1,968,105)	-
<b>Total liabilities</b>	<b>6,262,980</b>	<b>5,057,466</b>	<b>590,808</b>	<b>10,051</b>	<b>(2,347,676)</b>	<b>9,573,629</b>
<b>Net Assets (Deficit) - Unrestricted</b>	<b>8,826,007</b>	<b>(1,080,847)</b>	<b>(396,914)</b>	<b>(1,479)</b>	<b>-</b>	<b>7,346,767</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 15,088,987</b>	<b>\$ 3,976,619</b>	<b>\$ 193,894</b>	<b>\$ 8,572</b>	<b>\$ (2,347,676)</b>	<b>\$ 16,920,396</b>

# The University of Akron Research Foundation and Subsidiaries

## Consolidating Statement of Activities Year Ended June 30, 2015

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
<b>Revenue</b>						
Polymer training	\$ 6,053,041	\$ -	\$ -	\$ -	\$ -	\$ 6,053,041
Sponsored research	3,249,192	-	-	-	-	3,249,192
Experimental services	804,677	-	-	-	-	804,677
Rental income	6,345	796,722	-	-	(184,352)	618,715
License royalties and fees	87,722	-	-	-	-	87,722
Research funding	409,547	-	-	-	-	409,547
Interest income	178,534	-	-	-	-	178,534
Patent fee reimbursement	40,092	-	-	-	-	40,092
Unrealized gain on investments	34,922	-	-	-	-	34,922
In-kind contributions	159,342	-	-	-	-	159,342
Other income	323,863	-	78,217	-	-	402,080
<b>Total revenue</b>	<b>11,347,277</b>	<b>796,722</b>	<b>78,217</b>	<b>-</b>	<b>(184,352)</b>	<b>12,037,864</b>
<b>Expenses</b>						
Polymer training expense	5,136,591	-	-	-	-	5,136,591
Direct costs	2,544,490	-	-	-	-	2,544,490
Allocated indirect costs	636,077	-	-	-	-	636,077
Research support	756,161	-	228,698	8,139	-	992,998
Experimental services	620,856	-	-	-	-	620,856
Royalty distributions	70,497	-	-	-	-	70,497
Bad debt expense	57,192	-	-	-	-	57,192
Wage and benefit expense	561,985	-	-	-	-	561,985
Building operating expense	79,405	457,668	-	-	(184,352)	352,721
Interest income - Change in swap value	-	(27,551)	-	-	-	(27,551)
Interest expense	-	126,029	-	-	-	126,029
Public relations	91,956	-	-	-	-	91,956
Depreciation and amortization expense	184,434	186,016	5,211	-	-	375,661
Professional fees	34,275	-	-	-	-	34,275
Office expense	65,288	-	-	-	-	65,288
Insurance	30,007	-	-	-	-	30,007
<b>Total expenses</b>	<b>10,869,214</b>	<b>742,162</b>	<b>233,909</b>	<b>8,139</b>	<b>(184,352)</b>	<b>11,669,072</b>
<b>Change in Net Assets</b>	<b>478,063</b>	<b>54,560</b>	<b>(155,692)</b>	<b>(8,139)</b>	<b>-</b>	<b>368,792</b>
<b>Net Assets (Deficit) - Unrestricted - Beginning of year</b>	<b>8,347,944</b>	<b>(1,135,407)</b>	<b>(241,222)</b>	<b>6,660</b>	<b>-</b>	<b>6,977,975</b>
<b>Net Assets (Deficit) - Unrestricted - End of year</b>	<b>\$ 8,826,007</b>	<b>\$ (1,080,847)</b>	<b>\$ (396,914)</b>	<b>\$ (1,479)</b>	<b>\$ -</b>	<b>\$ 7,346,767</b>

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The University of Akron Research Foundation and Subsidiaries (the "Research Foundation"), a discretely presented component unit of the University of Akron, which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated October 6, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered The University of Akron Research Foundation and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Research Foundation's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 6, 2015

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# Dave Yost • 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  
FEBRUARY 2, 2016