

The University of Akron Research Foundation and Subsidiaries

**Consolidated Financial Statements
with Supplementary Information
June 30, 2016 and 2015**



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, 2015 through June 30, 2016. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 14, 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, 2016 and 2015 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, 2016 and 2015 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 Supplementary 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 other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. The other supplementary 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 September 30, 2016 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 & Morse, PLLC

September 30, 2016

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

	June 30	
	2016	2015
Assets		
Cash and cash equivalents	\$ 1,717,998	\$ 2,637,946
Short-term investments (Notes 3 and 4)	6,908,660	6,735,662
Receivables - Net (Note 5)	1,035,479	1,484,949
Prepaid expenses and other	100,736	81,844
Total current assets	9,762,873	10,940,401
Long-term investments (Note 3)	393,204	386,477
Property, plant, and equipment - Net (Note 6)	5,351,916	5,593,518
Total long-term assets	5,745,120	5,979,995
Total assets	\$ 15,507,993	\$ 16,920,396
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 7)	\$ 3,689,796	\$ 3,602,988
Accrued expenses	475,424	277,193
Accrued professional fees	28,000	26,910
Deferred revenue (Note 8)	1,612,501	2,652,576
Current portion of note payable (Note 9)	72,311	67,835
Fair value of interest rate swap (Notes 4 and 9)	409,782	374,244
Total current liabilities	6,287,814	7,001,746
Long-term note payable (Note 9)	2,499,572	2,571,883
Total liabilities	8,787,386	9,573,629
Net Assets - Unrestricted	6,720,607	7,346,767
Total liabilities and net assets	\$ 15,507,993	\$ 16,920,396

The University of Akron Research Foundation and Subsidiaries

Consolidated Statement of Activities

	Year Ended June 30	
	2016	2015
Revenue		
Polymer training	\$ 2,576,128	\$ 6,053,041
Sponsored research	2,193,756	3,249,192
Experimental services	707,872	804,677
Rental income	620,969	618,715
License royalties and fees	93,000	87,722
Research funding	267,464	409,547
Interest income	43,995	178,534
Patent fee reimbursement	510,001	40,092
Unrealized (loss) gain on investments	(171,011)	34,922
Loss on disposal of equity method investments (Note 3)	(118,273)	-
In-kind contributions	125,355	159,342
Other income	412,855	402,080
	7,262,111	12,037,864
Expenses		
Program services:		
Polymer training expense	2,311,407	5,136,591
Direct costs	1,657,198	2,544,490
Allocated indirect costs	386,074	636,077
Research support	969,987	808,646
Experimental services	495,512	620,856
Royalty distributions	30,000	70,497
Bad debt expense	54,339	57,192
Depreciation and amortization expense	116,996	106,673
	6,021,513	9,981,022
Support services:		
Wage and benefit expense	635,526	561,985
Building operating expense	530,279	537,073
Interest income (loss) - Change in swap value (Note 9)	35,538	(27,551)
Interest expense	130,624	126,029
Public relations	39,775	91,956
Depreciation and amortization expense	373,158	268,988
Professional fees	29,535	34,275
Office expense	45,297	65,288
Loss on disposal of property and equipment	15,021	-
Insurance	32,005	30,007
	1,866,758	1,688,050
Total support services	1,866,758	1,688,050
Total expenses	7,888,271	11,669,072
Change in Net Assets	(626,160)	368,792
Net Assets - Beginning of year	7,346,767	6,977,975
Net Assets - End of year	\$ 6,720,607	\$ 7,346,767

The University of Akron Research Foundation and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (626,160)	\$ 368,792
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Noncash items:		
Depreciation and amortization expense	490,154	375,661
Bad debt expense	54,339	57,192
Unrealized loss (gain) on securities	171,011	(34,922)
Loss on disposal of equity method investments	118,273	-
Change in interest rate swap value	35,538	(27,551)
Loss on disposal of property and equipment	15,021	-
Changes in operating assets and liabilities:		
Receivables	395,131	421,597
Prepaid expenses	(35,744)	(41,234)
Payables and accrued expenses	286,129	242,846
Deferred revenue	(1,040,075)	(333,850)
Net cash (used in) provided by operating activities	(136,383)	1,028,531
Cash Flows from Investing Activities		
Purchases of investments	(469,009)	(1,127,038)
Purchase of property and equipment	(246,721)	(36,982)
Net cash used in investing activities	(715,730)	(1,164,020)
Cash Flows from Financing Activities - Payments on debt	(67,835)	(63,636)
Decrease in Cash and Cash Equivalents	(919,948)	(199,125)
Cash and Cash Equivalents - Beginning of year	2,637,946	2,837,071
Cash and Cash Equivalents - End of year	\$ 1,717,998	\$ 2,637,946
Supplemental Disclosure of Cash Flow Information -		
Cash paid for interest	\$ 130,624	\$ 126,029

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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, 2016 and 2015. 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, 2016.

PMT was formed as a C corporation by the Research Foundation to develop wound closure adhesives based on the research of the University’s faculty. During fiscal year 2013, the Research Foundation provided the operating capital required to start the company and is the sole stockholder as of June 30, 2016.

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, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Sponsored research contracts are agreements for specific research, which are 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 largely became 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 has resulted in a decrease in the Research Foundation's sponsored research revenue.

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.

During the year ended June 30, 2009, the Research Foundation 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 agreement with these other parties expired on August 31, 2015. A new agreement with the Saudi Basic Industries Corporation and Higher Institute for Elastomer Industries was then entered into through August 31, 2019 to provide 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 \$560,322 and \$1,380,791 as of June 30, 2016 and 2015, 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. During fiscal year 2017, these agreements are expected to be largely two-party agreements between the sponsor and the University. This change will reduce experimental services revenue in future years.

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.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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 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 five 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, 2016 and 2015

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, 2016 and 2015. There were no other board-designated net assets as of June 30, 2016 and 2015.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

University Support of the Research Foundation - University employees and affiliates 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. For the fiscal years ended June 30, 2016 and 2015, in-kind support was provided by the University in the amount of \$125,355 and \$159,342, respectively.

Estimates - The preparation of consolidated 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 consolidated 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 (FASB) issued Accounting Standards Update (ASU) 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.

In February 2016, FASB issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. Many of the lessor accounting requirements in the ASU are consistent with the current lease guidance. The new lease guidance will be effective for the Research Foundation's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Research Foundation's consolidated financial statements as a result of the leasing activity described in Note 10.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Research Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Research Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Research Foundation is currently evaluating the impact this standard will have on the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures included evaluation of events up through and including September 30, 2016, which is the date the consolidated financial statements were available to be issued.

Note 3 - Investments

Investments at June 30, 2016 and 2015 are presented in the consolidated financial statements at fair market value and are composed of the following:

	<u>2016</u>	<u>2015</u>
Marketable securities - Stock equities and mutual funds (Note 4)	\$ 6,908,660	\$ 6,735,662
Alternative investments:		
Closely held stock and private equity (Equity method)	168,797	270,987
Closely held stock and private equity (Cost method)	<u>224,407</u>	<u>115,490</u>
Total alternative investments	<u>393,204</u>	<u>386,477</u>
Total investments	<u>\$ 7,301,864</u>	<u>\$ 7,122,139</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 University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 3 - Investments (Continued)

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, 2016, the Research Foundation released all their shares in a related entity (see Note 11), recorded with equity method investments in exchange for shares of a separate unrelated entity. The Research Foundation lost approximately \$118,000 on the transfer, which is recorded against revenue on the consolidated statement of activities.

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.

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, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Note 4 - Fair Value Measurements (Continued)

The following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015 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, 2016

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2016
Assets - Short-term investments:				
Exchange-traded funds				
Large growth	\$ 796,502	\$ -	\$ -	\$ 796,502
Large value	839,321	-	-	839,321
Mutual funds				
Fixed income	1,740,566	-	-	1,740,566
Small- and mid-cap growth	764,065	-	-	764,065
Alternative strategy	1,257,488	-	-	1,257,488
Internationals	1,510,718	-	-	1,510,718
Total assets	<u>\$ 6,908,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,908,660</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ (409,782)</u>	<u>\$ -</u>	<u>\$ (409,782)</u>

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
Assets - Short-term investments:				
Exchange-traded funds				
Large growth	\$ 677,461	\$ -	\$ -	\$ 677,461
Large value	686,475	-	-	686,475
Mutual funds				
Fixed income	1,948,290	-	-	1,948,290
Small- and mid-cap growth	659,925	-	-	659,925
Alternative strategy	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>
Liabilities - Interest rate swap	<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, 2016 and 2015

Note 4 - Fair Value Measurements (Continued)

The fair value of the interest rate swap at June 30, 2016 and 2015 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, 2016 and 2015 from sponsored research contracts, licenses, rents, and other. After known uncollectible accounts are deducted, approximately 5 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.

	2016	2015
Sponsored research	\$ 188,651	\$ 625,304
Licenses	20,500	20,500
Experimental services	231,206	206,598
Patent	240,431	55,192
Polymer training	-	354,066
Other	409,691	278,289
Allowance for doubtful accounts	(55,000)	(55,000)
Total	<u>\$ 1,035,479</u>	<u>\$ 1,484,949</u>

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,425,808	5,184,373
Equipment	<u>2,567,870</u>	<u>2,636,716</u>
Total property, plant, and equipment	8,400,603	8,228,014
Less accumulated depreciation	<u>(3,048,687)</u>	<u>(2,634,496)</u>
Net carrying amount	<u>\$ 5,351,916</u>	<u>\$ 5,593,518</u>

Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$473,302 and \$363,419, respectively.

Note 7 - Accounts Payable

Accounts payable are apportioned as follows at June 30:

	<u>2016</u>	<u>2015</u>
The University of Akron	\$ 3,283,372	\$ 2,935,401
Other nonrelated parties	<u>406,424</u>	<u>667,587</u>
Total	<u>\$ 3,689,796</u>	<u>\$ 3,602,988</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, 2016 and 2015.

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 the principal investigator and colleges. The undistributed indirect costs at June 30, 2016 and 2015 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, 2016 and 2015.

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

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, 2016 and 2015, the Research Foundation had deferred revenue from the following sources:

	2016	2015
Sponsored research	\$ 1,011,366	\$ 1,235,148
Polymer training	560,322	1,380,791
Rental income	40,813	36,637
Total	<u>\$ 1,612,501</u>	<u>\$ 2,652,576</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 1.47 percent and 1.19 percent at June 30, 2016 and 2015, respectively.

The balance due on the note at June 30, 2016 and 2015 was \$2,571,883 and \$2,639,718, respectively.

As of June 30, 2016 and 2015, 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, 2016	Interest income	\$ 35,538	Debt	\$ 409,782	\$ 1,714,585
June 30, 2015	Interest income	(27,551)	Debt	374,244	1,759,808

The University of Akron Research Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 9 - Note Payable (Continued)

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.

Under the agreement with the bank, the Research Foundation is subject to various financial covenants. As of June 30, 2016, 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 June 30	Amount
2017	\$ 72,311
2018	77,077
2019	82,156
2020	87,563
2021	87,563
Thereafter	<u>2,165,213</u>
Total	<u>\$ 2,571,883</u>

Note 10 - Operating Lease Rentals

AIC and the Research Foundation have operating lease agreements to lease space to 24 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, 2016 and 2015, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,425,808 and \$5,184,373, respectively, with accumulated depreciation of \$1,618,549 and \$1,419,677, 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. Under the agreement, the Research Foundation's leases 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, 2016 and 2015, 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, 2016 and 2015

Note 10 - Operating Lease Rentals (Continued)

As of June 30, 2016, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,745,578 and are due in the fiscal years ending June 30 as follows:

2017	\$	654,795
2018		442,419
2019		350,190
2020		215,918
2021		52,256
Thereafter		<u>30,000</u>
Total	\$	<u>1,745,578</u>

Note 11 - Related Parties

The Research Foundation was a minority stockholder in University Innovation Ventures (UIV); however, they released all their shares on December 7, 2015 in exchange for shares of a separate unrelated entity. During a portion of fiscal year 2016, the Research Foundation had a contractual agreement with UIV to perform services at a stated price. For the years ended June 30, 2016 and 2015, the Research Foundation paid \$12,500 and \$106,429, respectively, to UIV for materials investigation and project management. As of June 30, 2015, the Research Foundation has recorded a receivable due from UIV of \$41,996 and a payable due to UIV of \$348,573, which are included in net receivables and net payables, respectively, on the consolidated statement of financial position.

During the year ended June 30, 2016, the Research Foundation became a minority stockholder in Akron Ascent Innovation (AAI). The Research Foundation has a contractual agreement with AAI to perform services at a stated price. For the year ended June 30, 2016 the AAI reimbursed UARF for \$86,263 of expenses paid on AAI's behalf. As of June 30, 2016 the Research Foundation has recorded a receivable due from AAI of \$59,873. This is included in net receivables 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, 2016 and 2015, the Research Foundation paid \$3,091,561 and \$5,093,770, respectively, to the University for research and polymer training expenses.

Supplementary Information

The University of Akron Research Foundation and Subsidiaries

Consolidating Statement of Financial Position

June 30, 2016

	University of					Eliminations	Total
	Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.			
Assets							
Cash and cash equivalents	\$ 1,429,990	\$ 256,553	\$ 22,969	\$ 8,486	\$ -	\$ -	\$ 1,717,998
Short-term investments	6,908,660	-	-	-	-	-	6,908,660
Receivables - Net	1,382,755	7,892	27,128	-	(382,296)	-	1,035,479
Prepaid expenses and other	61,318	36,992	2,426	-	-	-	100,736
Total current assets	9,782,723	301,437	52,523	8,486	(382,296)	-	9,762,873
Long-term investments	393,204	-	-	-	-	-	393,204
Investment in subsidiaries	1,986,869	-	-	-	(1,986,869)	-	-
Property, plant, and equipment - Net	1,719,557	3,589,204	43,155	-	-	-	5,351,916
Total long-term assets	4,099,630	3,589,204	43,155	-	(1,986,869)	-	5,745,120
Total assets	\$ 13,882,353	\$ 3,890,641	\$ 95,678	\$ 8,486	\$ (2,369,165)	\$ -	\$ 15,507,993
Liabilities and Net Assets (Deficit)							
Liabilities							
Accounts payable	\$ 3,461,047	\$ 77,805	\$ 533,188	\$ 51	\$ (382,295)	\$ -	\$ 3,689,796
Accrued expenses	406,359	69,065	-	-	-	-	475,424
Accrued professional fees	28,000	-	-	-	-	-	28,000
Deferred revenue	1,574,244	38,257	-	-	-	-	1,612,501
Current portion of note payable	-	72,311	-	-	-	-	72,311
Fair value of interest rate swap	-	409,782	-	-	-	-	409,782
Total current liabilities	5,469,650	667,220	533,188	51	(382,295)	-	6,287,814
Long-term note payable	-	2,499,572	-	-	-	-	2,499,572
Total	5,469,650	3,166,792	533,188	51	(382,295)	-	8,787,386
Member contributions	-	1,925,870	51,000	10,000	(1,986,870)	-	-
Total liabilities	5,469,650	5,092,662	584,188	10,051	(2,369,165)	-	8,787,386
Net Assets (Deficit) - Unrestricted	8,412,703	(1,202,021)	(488,510)	(1,565)	-	-	6,720,607
Total liabilities and net assets (deficit)	\$ 13,882,353	\$ 3,890,641	\$ 95,678	\$ 8,486	\$ (2,369,165)	\$ -	\$ 15,507,993

The University of Akron Research Foundation and Subsidiaries

Consolidating Statement of Activities Year Ended June 30, 2016

	University of					
	Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
Revenue						
Polymer training	\$ 2,576,128	\$ -	\$ -	\$ -	\$ -	\$ 2,576,128
Sponsored research	2,193,756	-	-	-	-	2,193,756
Experimental services	707,872	-	-	-	-	707,872
Rental income	31,100	705,505	-	-	(115,636)	620,969
License royalties and fees	93,000	-	-	-	-	93,000
Research funding	267,464	-	-	-	-	267,464
Interest income	43,995	-	-	-	-	43,995
Patent fee reimbursement	510,001	-	-	-	-	510,001
Unrealized loss on investments	(171,011)	-	-	-	-	(171,011)
Loss on disposal of equity method investments	(118,273)	-	-	-	-	(118,273)
In-kind contributions	125,355	-	-	-	-	125,355
Other income	338,675	-	74,180	-	-	412,855
Total revenue	6,598,062	705,505	74,180	-	(115,636)	7,262,111
Expenses						
Polymer training expense	2,311,407	-	-	-	-	2,311,407
Direct costs	1,657,198	-	-	-	-	1,657,198
Allocated indirect costs	386,074	-	-	-	-	386,074
Research support	929,779	-	155,844	-	(115,636)	969,987
Experimental services	495,512	-	-	-	-	495,512
Royalty distributions	30,000	-	-	-	-	30,000
Bad debt expense	54,339	-	-	-	-	54,339
Wage and benefit expense	635,526	-	-	-	-	635,526
Building operating expense	61,450	468,829	-	-	-	530,279
Interest income - Change in swap value	-	35,538	-	-	-	35,538
Interest expense	-	130,624	-	-	-	130,624
Public relations	39,775	-	-	-	-	39,775
Loss on disposal of property and equipment	15,021	-	-	-	-	15,021
Depreciation and amortization expense	289,405	190,817	9,932	-	-	490,154
Professional fees	29,535	-	-	-	-	29,535
Office expense	44,340	871	-	86	-	45,297
Insurance	32,005	-	-	-	-	32,005
Total expenses	7,011,366	826,679	165,776	86	(115,636)	7,888,271
Change in Net Assets	(413,304)	(121,174)	(91,596)	(86)	-	(626,160)
Net Assets (Deficit) - Unrestricted - Beginning of year	8,826,007	(1,080,847)	(396,914)	(1,479)	-	7,346,767
Net Assets (Deficit) - Unrestricted - End of year	\$ 8,412,703	\$ (1,202,021)	\$ (488,510)	\$ (1,565)	\$ -	\$ 6,720,607

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, which comprise the consolidated statement of financial position as of June 30, 2016 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 September 30, 2016.

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 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

September 30, 2016



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
DECEMBER 27, 2016