

The University of Akron Research Foundation

**Consolidated Financial Statements
with Additional Information
June 30, 2012 and 2011**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The University of Akron Research Foundation, Summit County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 14, 2013

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The University of Akron Research Foundation

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Independent Auditor's Report

To the Board of Directors
The University of Akron
Research Foundation

We have audited the accompanying consolidated statement of financial position of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of the University of Akron, as of June 30, 2012 and 2011 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The University of Akron Research Foundation as of June 30, 2012 and 2011 and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of The University of Akron Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report (included on pages 21-22 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2012

The University of Akron Research Foundation

Consolidated Statement of Financial Position

	June 30	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,734,935	\$ 2,300,697
Short-term investments (Note 3 and 4)	4,126,553	5,991,323
Receivables - Net (Note 5)	1,153,384	1,209,605
Prepaid expenses and other	36,771	17,572
Total current assets	7,051,643	9,519,197
Long-term investments (Note 3)	380,120	292,352
Property, plant, and equipment - Net (Note 6)	5,800,862	5,250,604
Total long-term assets	6,180,982	5,542,956
Total assets	<u>\$ 13,232,625</u>	<u>\$ 15,062,153</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 7)	\$ 2,163,984	\$ 2,431,588
Accrued expenses	332,036	270,969
Accrued professional fees	27,500	26,000
Current portion of note payable (Note 9)	56,010	52,547
Fair value of interest rate swap (Note 4 and 9)	609,351	371,064
Deferred revenue (Note 8)	2,268,299	4,312,663
Total current liabilities	5,457,180	7,464,831
Long-term note payable (Note 9)	2,763,056	2,819,066
Total liabilities	8,220,236	10,283,897
Net Assets - Unrestricted	<u>5,012,389</u>	<u>4,778,256</u>
Total liabilities and net assets	<u>\$ 13,232,625</u>	<u>\$ 15,062,153</u>

The University of Akron Research Foundation

Consolidated Statement of Activities

	Year Ended June 30	
	2012	2011
Revenues		
Polymer training	\$ 4,955,681	\$ 2,441,340
Sponsored research	2,671,786	1,694,287
Experimental services	765,552	759,535
Rental income	531,480	573,396
License royalties and fees	256,156	315,463
Research funding	113,750	93,750
Interest income	164,375	166,552
Patent fee reimbursement	4,430	164,453
Unrealized (loss) gain on investments	(185,631)	422,511
Impairment of investment (Note 3)	-	(120,000)
Donated equipment (Note 6)	650,000	-
Cost share support	199,136	341,843
Miscellaneous income	338,079	295,083
Total revenues	10,464,794	7,148,213
Expenses		
Program services:		
Polymer training expense	4,073,890	1,892,327
Direct costs	2,296,161	1,134,746
Allocated indirect costs	552,351	460,288
Research support	544,774	572,849
Experimental services	643,199	690,607
Royalty distributions	106,170	171,172
Bad debt expense	110,826	239,758
Cost share support	199,137	341,843
Total program services	8,526,508	5,503,590
Support services:		
Wage expense	183,259	149,922
Building operating expense	517,064	506,427
Interest expense - Change in swap value	238,287	(63,486)
Interest expense	135,245	137,175
Public relations	116,577	96,644
Depreciation and amortization expense	382,350	277,581
Professional fees	40,309	36,448
Office expense	82,555	68,565
Insurance	8,507	9,552
Total support services	1,704,153	1,218,828
Total expenses	10,230,661	6,722,418
Change in Net Assets	234,133	425,795
Net Assets - Beginning of year	4,778,256	4,352,461
Net Assets - End of year	\$ 5,012,389	\$ 4,778,256

The University of Akron Research Foundation

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 234,133	\$ 425,795
Impairment of investment	-	120,000
Depreciation and amortization expense	382,350	277,581
Bad debt expense	110,826	239,758
Unrealized gain on securities	(185,631)	(422,511)
Interest rate swap	238,287	(63,486)
Donation of equipment	(650,000)	-
Adjustments to reconcile change in net assets to net cash from operating activities - Changes in operating assets and liabilities:		
Receivables	(54,605)	(403,270)
Prepaid expenses	(25,353)	60,603
Payables and accrued expenses	(205,038)	347,241
Deferred revenue	(2,044,364)	(2,403,541)
Net cash used in operating activities	(2,199,395)	(1,821,830)
Cash Flows from Investing Activities		
Sale of investments	1,962,635	2,669,551
Purchase of buildings and equipment	(276,455)	(1,043,642)
Net cash provided by investing activities	1,686,180	1,625,909
Cash Flows from Financing Activities - Payments on debt	(52,547)	(49,301)
Decrease in Cash and Cash Equivalents	(565,762)	(245,222)
Cash and Cash Equivalents - Beginning of year	<u>2,300,697</u>	<u>2,545,919</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,734,935</u></u>	<u><u>\$ 2,300,697</u></u>
Supplemental Disclosure of Cash Flow Information -		
Cash paid for interest	<u>\$ 134,534</u>	<u>\$ 138,373</u>

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 1 - Organization

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

Sponsored research contracts are agreements for specific research, which is performed for a sponsor by the University. The revenues are received by and maintained within the Research Foundation's accounting records while the direct costs associated with the contracts are incurred by and reflected within the University's accounting records. Each month, the University invoices the Research Foundation for the direct costs incurred under the research contracts.

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

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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 agreement, extending to August 31, 2015, provides for the training, teaching, management, and other academic resources to advance polymer and materials education through the institute. The related polymer training revenue is recognized on the percentage of completion based on costs incurred to date. Funds are received in advance each quarter. These funds are included in deferred revenue on the consolidated statement of financial position and total \$959,752 and \$3,371,410 as of June 2012 and 2011, 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 a three-party agreement.

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

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

Concentration of Credit Risk - The Research Foundation maintains cash balances at five banks and the accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2012 and 2011. As of June 30, 2012 and 2011, the Research Foundation had uninsured deposits totaling approximately \$816,000 and \$765,000, respectively.

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair values of investments are based on quoted market prices. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Realized gains (losses) on investments are the difference between the proceeds received and the cost of investments sold. Net appreciation (depreciation) in the fair value of investments (including realized gains (losses) and unrealized gains (losses) and dividends and interest) is included in revenues in the consolidated statement of activities.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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 advertising 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. Contributed equipment is recorded at fair market value.

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. The swap is designated as a cash flow hedge used to manage the risk associated with interest rates on fixed-rate borrowings. For cash flow hedges, the effective portion of the gain or loss on the derivative instrument is included as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction is recognized in earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of June 30, 2012 and 2011, the Research Foundation held interest rate swaps with notional balances of \$1,879,381 and \$1,914,409, respectively. Amounts recognized on the interest rate swaps of \$238,287 and (\$63,486) have been recognized in interest expense for the years ended June 30, 2012 and 2011, respectively.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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, 2012 and 2011. There were no other board-designated net assets as of June 30, 2012 and 2011.

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

For the fiscal years ended June 30, 2012 and 2011, in-kind support in the amount of \$199,136 and \$341,843, respectively, was provided by the University for sponsored research contracts. This support was in the form of wages for the principal investigators and cost sharing provided for equipment. This is reflected in the financial statements as a contribution and as an expense when the services are provided.

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

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounting for Uncertainties in Income Taxes - Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Research Foundation and recognize a tax liability if the Research Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Research Foundation and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Research Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Subsequent Events - The consolidated financial statements and related disclosures included evaluation of events up through and including October 15, 2012, which is the date the consolidated financial statements were available to be issued.

Note 3 - Investments

Investments at June 30, 2012 and 2011 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	<u>2012</u>	<u>2011</u>
Marketable securities:		
Money market mutual funds	\$ 451,015	\$ 828,811
Stock equities and mutual funds	<u>3,675,538</u>	<u>5,162,512</u>
Total marketable securities	4,126,553	5,991,323
Alternative investments:		
Closely held stock and private equity (cost method)	159,630	195,490
Closely held stock and private equity (equity method)	<u>220,490</u>	<u>96,862</u>
Total alternative investments	<u>380,120</u>	<u>292,352</u>
Total investments	<u>\$ 4,506,673</u>	<u>\$ 6,283,675</u>

On September 1, 2007, an account with Legacy Strategic Asset Management was opened to invest in marketable securities in accordance with the Research Foundation's investment policy. Legacy Strategic Asset Management is a subsidiary of Wachovia Securities and all securities are held by Wells Fargo at June 30, 2012 and 2011. Earnings on invested amounts are retained in the fund for reinvestment until such time as the Research Foundation authorizes delivery of all or part of the funds to or for the benefit of the University. An adjustment to market value resulted in an unrealized loss in fiscal year 2012 and an unrealized gain in fiscal year 2011.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

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 fiscal year 2011, an impairment analysis on a closely held stock resulted in a permanent decline in value of an equity holding. This decline is reflected in the consolidated statement of financial position and consolidated statement of activities as an impairment of investment.

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.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 4 - Fair Value Measurements (Continued)

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, 2012 and 2011, 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, 2012 and 2011 and the valuation techniques used by the Research Foundation to determine those fair values.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2012
Assets				
Federated Short-term income	\$ 451,015	\$ -	\$ -	\$ 451,015
Goldman Sachs Financial	15	-	-	15
PIMCO securities	1,051,832	-	-	1,051,832
Intermediate and short-term bonds	540,543	-	-	540,543
Large blend	398,391	-	-	398,391
Large Value	382,784	-	-	382,784
World allocation	965,677	-	-	965,677
Mid-cap growth	336,296	-	-	336,296
Liabilities - Interest rate swap	-	(609,351)	-	(609,351)

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 4 - Fair Value Measurements (Continued)

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

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2011
Assets				
Federated Short-term income	\$ 900,946	\$ -	\$ -	\$ 900,946
Goldman Sachs Financial	1,482,536	-	-	1,482,536
PIMCO securities	876,201	-	-	876,201
Intermediate and short-term bonds	520,906	-	-	520,906
Large blend	401,776	-	-	401,776
Large Value	427,035	-	-	427,035
World allocation	956,788	-	-	956,788
Mid-cap growth	212,564	-	-	212,564
Small-cap growth	212,564	-	-	212,564
Liabilities - Interest rate swap	-	(371,064)	-	(371,064)

Note 5 - Receivables

Receivables consist of monies due to the Research Foundation at June 30, 2012 and 2011 from sponsored research contracts, license, rents, and other. After known uncollectible accounts are deducted, 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

	2012	2011
Sponsored research	\$ 542,125	\$ 692,652
Licenses	90,000	195,161
Experimental services	180,736	150,245
Polymer training	152,157	80,567
Other	239,866	153,980
Allowance for doubtful accounts	(51,500)	(63,000)
Total	<u>\$ 1,153,384</u>	<u>\$ 1,209,605</u>

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 6 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2012	2011
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,041,694	4,871,540
Equipment	<u>1,588,131</u>	<u>831,830</u>
Total property, plant, and equipment	7,036,750	6,110,295
Less accumulated depreciation	<u>1,235,888</u>	<u>859,691</u>
Net carrying amount	<u>\$ 5,800,862</u>	<u>\$ 5,250,604</u>

Through a joint collaboration with an unrelated company, equipment with a fair market value of \$650,000 was donated to the Research Foundation. The fair market value was determined based on a professional estimate of the purchase price of the equipment at current market rate. This collaboration consisted of a future research and experimental services contract along with the equipment for an engineered surfaces laboratory.

Note 7 - Accounts Payable

The Research Foundation reimburses the University for direct and indirect costs incurred by the University related to sponsored research contracts managed by the Research Foundation. The balance incurred by the University before year end is included in the payable to the University of Akron at June 30, 2012 and 2011.

The Research Foundation is also permitted to recover indirect costs related to sponsored research contracts. A portion of those indirect costs is payable to the inventor's college or department for use by inventors and colleges. The undistributed indirect costs at June 30, 2012 and 2011 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, 2012 and 2011.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 7 - Accounts Payable (Continued)

	2012	2011
The University of Akron	\$ 1,439,806	\$ 1,523,296
Other payables	724,178	908,292
Total	<u>\$ 2,163,984</u>	<u>\$ 2,431,588</u>

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, 2012 and 2011, the Research Foundation had deferred revenue from the following sources:

	2012	2011
Sponsored research	\$ 1,245,780	\$ 858,200
Polymer training	959,752	3,371,410
Licenses	-	5,000
Rental income	62,767	78,053
Total	<u>\$ 2,268,299</u>	<u>\$ 4,312,663</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 1.24 percent and 1.19 percent at June 30, 2012 and 2011, respectively.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 9 - Note Payable (Continued)

As of June 30, 2012 and 2011, the swap agreement is summarized as follows:

	Change in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
Interest rate swap					
Pay-fixed interest rate swap (receive-variable)					
June 30, 2012	Interest expense	\$ 238,287	Debt	\$ 609,351	\$ 1,879,381
June 30, 2011	Interest income	(63,486)	Debt	371,064	1,914,409

Under the terms of the agreement, monthly principal payments ranging from \$4,086 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, 2012, the Research Foundation was in compliance with all such covenants.

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

Years Ending	Amount
June 30	
2013	\$ 56,010
2014	59,702
2015	63,636
2016	67,835
2017	72,311
Thereafter	2,499,572
Total	<u>\$ 2,819,066</u>

Note 10 - Operating Lease Rentals

AIC and UARF have operating lease agreements with 22 tenants at the three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2017. As of June 30, 2012 and 2011, leased buildings and building improvements are recorded at a cost of \$5,041,694 and \$4,871,540, respectively, with accumulated depreciation of \$811,854 and \$573,725, respectively.

The University of Akron Research Foundation

Notes to Consolidated Financial Statements June 30, 2012 and 2011

Note 10 - Operating Lease Rentals (Continued)

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 revenues generated by clients referred by the Research Foundation or no less than \$3,000. At June 30, 2012 and 2011, the equipment was recorded at a cost of \$137,683 with accumulated depreciation of \$137,683.

As of June 30, 2012, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,853,125 and are due in the five succeeding years as follows:

Years Ending June 30	Amount
2013	\$ 633,669
2014	552,975
2015	276,010
2016	232,746
2017	115,725
Thereafter	42,000
Total	<u>\$ 1,853,125</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, 2012 and 2011, the Research Foundation paid \$332,090 and \$255,901, respectively, to UIV for materials investigation and project management. At June 30, 2012 and 2011, a receivable of \$17,639 has been recorded for research activities being conducted by UIV.

The University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2012 and 2011, the Research Foundation paid \$4,432,941 and \$2,845,336, respectively, to the University for research and polymer training expenses.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
The University of Akron
Research Foundation

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise The University of Akron Research Foundation's consolidated financial statements. The accompanying other additional information, as identified in the consolidating statement of financial position and the consolidating statement of activities, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying 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.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2012

The University of Akron Research Foundation

Consolidating Statement of Financial Position June 30, 2012

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 1,472,239	\$ 262,696	\$ -	\$ 1,734,935
Investments at market	4,126,553	-	-	4,126,553
Receivables - Net	1,147,305	6,079	-	1,153,384
Prepaid expenses and other	8,129	28,642	-	36,771
Total current assets	6,754,226	297,417	-	7,051,643
Investments	380,120	-	-	380,120
Investment in subsidiary	2,056,429	-	(2,056,429)	-
Property, plant, and equipment - Net	1,748,200	4,052,662	-	5,800,862
Total long-term assets	4,184,749	4,052,662	(2,056,429)	6,180,982
Total assets	<u>\$ 10,938,975</u>	<u>\$ 4,350,079</u>	<u>\$ (2,056,429)</u>	<u>\$ 13,232,625</u>
Liabilities and Net Assets (Deficit)				
Liabilities				
Accounts payable	\$ 2,140,867	\$ 23,117	\$ -	\$ 2,163,984
Accrued expenses	269,925	62,111	-	332,036
Accrued professional fees	27,500	-	-	27,500
Current portion of note	-	56,010	-	56,010
Fair value of interest rate swap	-	609,351	-	609,351
Deferred revenue	2,216,862	51,437	-	2,268,299
Total current liabilities	4,655,154	802,026	-	5,457,180
Long-term note payable	-	2,763,056	-	2,763,056
Total	4,655,154	3,565,082	-	8,220,236
Member contributions	-	2,056,429	(2,056,429)	-
Total liabilities	4,655,154	5,621,511	(2,056,429)	8,220,236
Net Assets (Deficit) - Unrestricted	<u>6,283,821</u>	<u>(1,271,432)</u>	<u>-</u>	<u>5,012,389</u>
Total liabilities and net assets (deficit)	<u>\$ 10,938,975</u>	<u>\$ 4,350,079</u>	<u>\$ (2,056,429)</u>	<u>\$ 13,232,625</u>

The University of Akron Research Foundation

Consolidating Statement of Activities Year Ended June 30, 2012

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
Revenues				
Polymer training	\$ 4,955,681	\$ -	\$ -	\$ 4,955,681
Sponsored research	2,671,786	-	-	2,671,786
Experimental testing	765,552	-	-	765,552
Rental income	15,746	732,734	(217,000)	531,480
License royalties and fees	256,156	-	-	256,156
Research funding	113,750	-	-	113,750
Interest income	164,064	311	-	164,375
Patent fee reimbursement	4,430	-	-	4,430
Unrealized loss on investments	(185,631)	-	-	(185,631)
Cost share support	199,136	-	-	199,136
Donation of equipment	650,000	-	-	650,000
Miscellaneous income	338,079	-	-	338,079
Total revenues	9,948,749	733,045	(217,000)	10,464,794
Expenses				
Polymer training expense	4,073,890	-	-	4,073,890
Direct costs	2,296,161	-	-	2,296,161
Allocated indirect costs	552,351	-	-	552,351
Research support	544,774	-	-	544,774
Experimental testing	643,199	-	-	643,199
Royalty distributions	106,170	-	-	106,170
Bad debt expense	110,826	-	-	110,826
Cost share support	199,137	-	-	199,137
Wage expense	183,259	-	-	183,259
Building operating expense	272,311	461,753	(217,000)	517,064
Interest expense - Change in swap value	-	238,287	-	238,287
Interest expense	-	135,245	-	135,245
Public relations	116,577	-	-	116,577
Depreciation expense	154,033	222,163	-	376,196
Amortization	-	6,154	-	6,154
Professional fees	40,309	-	-	40,309
Office expense	76,255	6,300	-	82,555
Insurance	8,507	-	-	8,507
Total expenses	9,377,759	1,069,902	(217,000)	10,230,661
Change in Net Assets	570,990	(336,857)	-	234,133
Net Assets (Deficit) - Unrestricted - Beginning of year	5,712,831	(934,575)	-	4,778,256
Net Assets (Deficit) - Unrestricted - End of year	\$ 6,283,821	\$ (1,271,432)	\$ -	\$ 5,012,389

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 the Board of Directors
The University of Akron
Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation (the "Research Foundation"), a discretely presented component unit of The University of Akron, as of and for the year ended June 30, 2012 and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Research Foundation is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Research Foundation's financial statements will not be prevented or detected and corrected on a timely basis.

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

To the Board of Directors
The University of Akron
Research Foundation

Compliance and Other Matters

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

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

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2012



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
JANUARY 24, 2013