

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

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**Consolidated Financial Statements  
with Supplementary Information  
June 30, 2017 and 2016**





# 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, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 20, 2017

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

This report is subject to review and acceptance by the Auditor of State's office, and the requirements of Ohio Revised Code § 117.25 are not met until the Auditor of State certifies this report. This process will be completed by the Auditor of State in a reasonable timeframe and reports are subject to change if the Auditor of State determines that modification of a report is necessary to comply with required accounting or auditing standards or Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

*Plante & Moran, PLLC*

September 29, 2017

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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, 2017 and 2016 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, 2017 and 2016 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 29, 2017 on our consideration of 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, 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 29, 2017

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

	June 30	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 1,682,979	\$ 1,717,998
Short-term investments (Notes 3 and 4)	7,465,082	6,908,660
Receivables - Net (Note 5)	645,353	1,035,479
Prepaid expenses and other	162,733	100,736
Total current assets	9,956,147	9,762,873
Long-term investments (Note 3)	383,732	393,204
Property, plant, and equipment - Net (Note 6)	4,895,375	5,351,916
Total long-term assets	5,279,107	5,745,120
Total assets	<b>\$ 15,235,254</b>	<b>\$ 15,507,993</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 7)	\$ 3,525,952	\$ 3,689,796
Accrued expenses	287,688	475,424
Accrued professional fees	28,000	28,000
Deferred revenue (Note 8)	1,050,084	1,612,501
Current portion of note payable (Note 9)	77,077	72,311
Fair value of interest rate swap (Notes 4 and 9)	263,145	409,782
Total current liabilities	5,231,946	6,287,814
Long-term note payable (Note 9)	2,422,495	2,499,572
Total liabilities	7,654,441	8,787,386
<b>Net Assets - Unrestricted</b>	7,580,813	6,720,607
Total liabilities and net assets	<b>\$ 15,235,254</b>	<b>\$ 15,507,993</b>

# The University of Akron Research Foundation and Subsidiaries

## Consolidated Statement of Activities

	Year Ended June 30	
	2017	2016
<b>Revenue</b>		
Polymer training	\$ 2,036,885	\$ 2,576,128
Sponsored research	1,467,591	2,193,756
Experimental services	526,184	707,872
Rental income	709,604	620,969
License royalties and fees	93,760	93,000
Research funding	407,497	267,464
Investment income	168,614	230,238
Patent fee reimbursement	180,502	510,001
Unrealized gain (loss) on investments	743,426	(357,254)
Loss on disposal of equity method investments (Note 3)	-	(118,273)
In-kind contributions	32,920	125,355
Other income	444,329	412,855
Total revenue	6,811,312	7,262,111
<b>Expenses</b>		
Program services:		
Polymer training	1,621,968	2,311,407
Direct costs	1,085,554	1,657,198
Allocated indirect costs	233,178	386,074
Research support	527,824	969,987
Experimental services	511,947	495,512
Royalty distributions	15,926	30,000
Bad debt expense	210,080	54,339
Depreciation and amortization expense	104,391	116,996
Total program services	4,310,868	6,021,513
Support services:		
Wages and benefits	593,598	635,526
Building operating	527,303	530,279
Interest (income) loss - Change in swap value (Note 9)	(146,637)	35,538
Interest expense	118,023	130,624
Public relations	28,883	39,775
Depreciation and amortization expense	390,949	373,158
Professional fees	36,221	29,535
Office expense	63,130	45,297
Loss on disposal	-	15,021
Insurance	28,768	32,005
Total support services	1,640,238	1,866,758
Total expenses	5,951,106	7,888,271
<b>Change in Net Assets</b>	860,206	(626,160)
<b>Net Assets - Beginning of year</b>	6,720,607	7,346,767
<b>Net Assets - End of year</b>	<b>\$ 7,580,813</b>	<b>\$ 6,720,607</b>

# The University of Akron Research Foundation and Subsidiaries

## Consolidated Statement of Cash Flows

	Year Ended June 30	
	2017	2016
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 860,206	\$ (626,160)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Noncash items:		
Depreciation and amortization expense	495,340	490,154
Bad debt expense	210,080	54,339
Unrealized (gain) loss on securities	(743,426)	357,254
Unrealized loss on impairment	-	118,273
Change in interest rate swap	(146,637)	35,538
Loss on disposal	-	15,021
Changes in operating assets and liabilities:		
Receivables	180,046	395,131
Prepaid expenses	(85,845)	(35,744)
Payables and accrued expenses	(351,580)	286,129
Deferred revenue	(562,417)	(1,040,075)
Net cash and cash equivalents (used in) provided by operating activities	(144,233)	49,860
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	196,475	(655,252)
Purchase of property and equipment	(14,950)	(246,721)
Net cash and cash equivalents provided by (used in) investing activities	181,525	(901,973)
<b>Cash Flows from Financing Activities - Payments on debt</b>	(72,311)	(67,835)
<b>Decrease in Cash and Cash Equivalents</b>	(35,019)	(919,948)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,717,998	2,637,946
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,682,979</b>	<b>\$ 1,717,998</b>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid for interest	<b>\$ 118,023</b>	<b>\$ 130,624</b>

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

## **Notes to Consolidated Financial Statements June 30, 2017 and 2016**

### **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 11-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, 2017 and 2016. 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, 2017.

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, 2017.

### **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.

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

## **Notes to Consolidated Financial Statements June 30, 2017 and 2016**

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

**Principal Revenue and Expenses** - The Research Foundation's principal revenue is derived from the polymer training program and sponsored research contracts.

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 does 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.

The Research Foundation has partnered with the Saudi Basic Industries Corporation and Higher Institute for Elastomer Industries to provide for the training, teaching, management, and other academic resources to advance polymer and materials education through the institute. The current agreement extends through August 31, 2020. The related polymer training revenue is recognized on a cost reimbursement basis. Funds are received in advance each quarter. These funds are included in deferred revenue on the consolidated statement of financial position and total \$378,175 and \$560,322 as of June 30, 2017 and 2016, respectively (see Note 8).

Additionally, the Research Foundation receives revenue related to the leasing of certain properties. 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. See Note 10 for additional information.

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

## **Notes to Consolidated Financial Statements June 30, 2017 and 2016**

### **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, 2017 and 2016**

### **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, 2017 and 2016. There were no other board-designated net assets as of June 30, 2017 and 2016.

**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, 2017 and 2016, in-kind support was provided by the University in the amount of \$32,920 and \$125,355, respectively.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

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

**Reclassification** - Certain items in the 2016 statements of activities and cash flows have been reclassified to conform to classifications used in 2017. These reclassifications related to the reporting of gains and losses on investments as the Research Foundation received additional information from the investment custodians which allowed for more detailed reporting.

**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.

**Subsequent Events** - The consolidated financial statements and related disclosures included evaluation of events up through and including September 29, 2017, which is the date the consolidated financial statements were available to be issued.

**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. Due to the nature of the proportional performance included in its customer contracts, the Research Foundation's pattern of revenue recognition could change upon adoption. The Research Foundation is currently evaluating the structure of its customer contracts in order to apply the principles under the new standard, which is effective for the Research Foundation's year ending June 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU did not significantly change the accounting requirements for lessors and, accordingly, application of the new lease standard is not expected to have a significant effect on the Research Foundation's consolidated financial statements. 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 University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

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

In August 2016, the FASB issued ASU No. 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 that 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. As part of implementing this standard, the Research Foundation is currently evaluating the development of a new expense matrix and new liquidity disclosures.

### Note 3 - Investments

Investments at June 30, 2017 and 2016 are presented in the consolidated financial statements at fair market value and are composed of the following:

	<u>2017</u>	<u>2016</u>
Marketable securities - Stock equities and mutual funds (Note 4)	\$ 7,465,082	\$ 6,908,660
Alternative investments:		
Closely held stock and private equity (equity method)	180,120	168,797
Closely held stock and private equity (cost method)	<u>203,612</u>	<u>224,407</u>
Total alternative investments	<u>383,732</u>	<u>393,204</u>
Total investments	<u>\$ 7,848,814</u>	<u>\$ 7,301,864</u>

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

The Research Foundation periodically evaluates these investments 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 its 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 \$118,273 on the transfer, which is recorded against revenue on the consolidated statement of activities.

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

## **Notes to Consolidated Financial Statements June 30, 2017 and 2016**

### **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 or liability.

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, 2017 and 2016, 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, 2017 and 2016

#### 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, 2017 and 2016 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, 2017

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2017
<b>Assets - Short-term investments</b>				
Exchange traded funds:				
Large growth	\$ 878,096	\$ -	\$ -	\$ 878,096
Large value	887,942	-	-	887,942
Mutual funds:				
Fixed income	1,827,006	-	-	1,827,006
Small- and mid-cap growth	880,005	-	-	880,005
Alternatives	1,280,646	-	-	1,280,646
Internationals	1,711,387	-	-	1,711,387
Total assets	<u>\$ 7,465,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,465,082</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ (263,145)</u>	<u>\$ -</u>	<u>\$ (263,145)</u>

##### 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
<b>Assets - Short-term investments</b>				
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
Alternatives	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>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ (409,782)</u>	<u>\$ -</u>	<u>\$ (409,782)</u>

The fair value of the interest rate swap at June 30, 2017 and 2016 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.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

### Note 5 - Receivables

Receivables consist of monies due to the Research Foundation at June 30, 2017 and 2016 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.

	<u>2017</u>	<u>2016</u>
Sponsored research	\$ 151,469	\$ 188,651
Licenses	90,469	20,500
Experimental services	98,362	231,206
Patent	91,731	240,431
Other	248,323	409,691
Allowance for doubtful accounts	<u>(35,000)</u>	<u>(55,000)</u>
Total	<u>\$ 645,353</u>	<u>\$ 1,035,479</u>

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

Property, plant, and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,440,758	5,425,808
Equipment	<u>2,567,870</u>	<u>2,567,870</u>
Total property, plant, and equipment	8,415,553	8,400,603
Less accumulated depreciation	<u>(3,520,178)</u>	<u>(3,048,687)</u>
Net carrying amount	<u>\$ 4,895,375</u>	<u>\$ 5,351,916</u>

Depreciation expense for the years ended June 30, 2017 and 2016 totaled \$471,491 and \$473,302, respectively.

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

### Note 7 - Accounts Payable

Accounts payable are apportioned as follows at June 30:

	<u>2017</u>	<u>2016</u>
The University of Akron	\$ 3,190,000	\$ 3,283,372
Other nonrelated parties	<u>335,952</u>	<u>406,424</u>
Total	<u>\$ 3,525,952</u>	<u>\$ 3,689,796</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, 2017 and 2016.

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. The undistributed indirect costs at June 30, 2017 and 2016 are included in the payable to the University of Akron.

### 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, 2017 and 2016, the Research Foundation had deferred revenue from the following sources:

	<u>2017</u>	<u>2016</u>
Sponsored research	\$ 606,528	\$ 1,011,366
Polymer training	378,175	560,322
Rental income	<u>65,381</u>	<u>40,813</u>
Total	<u>\$ 1,050,084</u>	<u>\$ 1,612,501</u>

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

### 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 2.11 percent and 1.47 percent at June 30, 2017 and 2016, respectively.

The balance due on the note at June 30, 2017 and 2016 was \$2,499,572 and \$2,571,883, respectively.

As of June 30, 2017 and 2016, 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, 2017	Interest income	\$ (146,637)	Debt	\$ 263,145	\$ 1,666,382
June 30, 2016	Interest expense	35,538	Debt	409,782	\$ 1,714,585

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, 2017, 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
2018	\$ 77,077
2019	82,156
2020	87,563
2021	87,563
2022	2,165,213
Total	<u>\$ 2,499,572</u>

# The University of Akron Research Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2017 and 2016

### Note 10 - Operating Lease Rentals

At June 30, 2017, AIC and the Research Foundation have operating lease agreements to lease space to 21 tenants at three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2022. As of June 30, 2017 and 2016, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,440,759 and \$5,425,808, respectively, with accumulated depreciation of \$1,836,776 and \$1,618,549, 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 leases pilot plant equipment to Akron Polymer Systems. This lease will terminate on September 30, 2017. At June 30, 2017 and 2016, the equipment was recorded at a cost of \$137,683 and fully depreciated.

As of June 30, 2017, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,543,821 and are due in the fiscal years ending June 30 as follows:

Years Ending June 30	Amount
2018	\$ 616,377
2019	470,505
2020	321,543
2021	114,425
2022	20,971
Total	<u>\$ 1,543,821</u>

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

## **Notes to Consolidated Financial Statements June 30, 2017 and 2016**

### **Note 11 - Related Parties**

The Research Foundation was a minority stockholder in University Innovation Ventures (UIV); however, it released all its 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 year ended June 30, 2016, the Research Foundation paid \$12,500 to UIV for materials investigation and project management.

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 years ended June 30, 2017 and 2016, AAI reimbursed UARF for \$39,700 and \$86,263, respectively, for expenses paid on AAI's behalf. As of June 30, 2017 and 2016, the Research Foundation has recorded a receivable due from AAI of \$0 and \$59,873, respectively. 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, 2017 and 2016, the Research Foundation transferred \$2,178,099 and \$3,091,561, respectively, to the University for research and polymer training expenses.

### **Note 12 - Employees' Retirement Plan**

The Research Foundation offers its eligible employees the opportunity to participate in the retirement plan offered by The University of Akron Research Foundation. The Research Foundation matches contributions to a maximum of 100 percent of employee contributions that are not in excess of 3 percent of the participant's compensation plus 50 percent of the employee contributions that are in excess of 3 percent of participant compensation, but that do not exceed 5 percent of participant's compensation. The Research Foundation's total contribution was approximately \$42,000 and \$13,000 for the years ended June 30, 2017 and 2016, respectively.

## **Supplementary Information**

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# The University of Akron Research Foundation and Subsidiaries

## Consolidating Statement of Financial Position

### June 30, 2017

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 1,374,865	\$ 276,219	\$ 23,429	\$ 8,466	\$ -	\$ 1,682,979
Investments at market	7,465,082	-	-	-	-	7,465,082
Receivables - Net	980,216	8,940	15,197	-	(359,000)	645,353
Prepaid expenses and other	118,591	40,684	3,458	-	-	162,733
<b>Total current assets</b>	<b>9,938,754</b>	<b>325,843</b>	<b>42,084</b>	<b>8,466</b>	<b>(359,000)</b>	<b>9,956,147</b>
Investments	383,732	-	-	-	-	383,732
Investment in subsidiary	2,003,817	-	-	-	(2,003,817)	-
Property, plant, and equipment - Net	1,444,497	3,418,145	32,733	-	-	4,895,375
<b>Total long-term assets</b>	<b>3,832,046</b>	<b>3,418,145</b>	<b>32,733</b>	<b>-</b>	<b>(2,003,817)</b>	<b>5,279,107</b>
<b>Total assets</b>	<b>\$ 13,770,800</b>	<b>\$ 3,743,988</b>	<b>\$ 74,817</b>	<b>\$ 8,466</b>	<b>\$ (2,362,817)</b>	<b>\$ 15,235,254</b>
<b>Liabilities and Net Assets (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,408,267	\$ 17,341	\$ 459,293	\$ 51	\$ (359,000)	\$ 3,525,952
Accrued expenses	222,440	65,248	-	-	-	287,688
Accrued professional fees	28,000	-	-	-	-	28,000
Deferred revenue	987,259	62,825	-	-	-	1,050,084
Current portion of note	-	77,077	-	-	-	77,077
Fair value of interest rate swap	-	263,145	-	-	-	263,145
<b>Total current liabilities</b>	<b>4,645,966</b>	<b>485,636</b>	<b>459,293</b>	<b>51</b>	<b>(359,000)</b>	<b>5,231,946</b>
Long-term note payable	-	2,422,495	-	-	-	2,422,495
<b>Total</b>	<b>4,645,966</b>	<b>2,908,131</b>	<b>459,293</b>	<b>51</b>	<b>(359,000)</b>	<b>7,654,441</b>
Member contributions	-	1,942,817	51,000	10,000	(2,003,817)	-
<b>Total liabilities</b>	<b>4,645,966</b>	<b>4,850,948</b>	<b>510,293</b>	<b>10,051</b>	<b>(2,362,817)</b>	<b>7,654,441</b>
<b>Net Assets (Deficit) - Unrestricted</b>	<b>9,124,834</b>	<b>(1,106,960)</b>	<b>(435,476)</b>	<b>(1,585)</b>	<b>-</b>	<b>7,580,813</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 13,770,800</b>	<b>\$ 3,743,988</b>	<b>\$ 74,817</b>	<b>\$ 8,466</b>	<b>\$ (2,362,817)</b>	<b>\$ 15,235,254</b>

# The University of Akron Research Foundation and Subsidiaries

## Consolidating Statement of Activities Year Ended June 30, 2017

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
<b>Revenue</b>						
Polymer training	\$ 2,036,885	\$ -	\$ -	\$ -	\$ -	\$ 2,036,885
Sponsored research	1,467,591	-	-	-	-	1,467,591
Experimental services	526,184	-	-	-	-	526,184
Rental income	51,346	728,644	-	-	(70,386)	709,604
License royalties and fees	93,760	-	-	-	-	93,760
Research funding	407,497	-	-	-	-	407,497
Interest income	168,614	-	-	-	-	168,614
Patent fee reimbursement	180,502	-	-	-	-	180,502
Unrealized gain on investments	743,426	-	-	-	-	743,426
In-kind contributions	32,920	-	-	-	-	32,920
Other income	313,978	-	130,351	-	-	444,329
<b>Total revenue</b>	<b>6,022,703</b>	<b>728,644</b>	<b>130,351</b>	<b>-</b>	<b>(70,386)</b>	<b>6,811,312</b>
<b>Expenses</b>						
Polymer training expense	1,621,968	-	-	-	-	1,621,968
Direct costs	1,085,554	-	-	-	-	1,085,554
Allocated indirect costs	233,178	-	-	-	-	233,178
Research support	531,315	-	66,895	-	(70,386)	527,824
Experimental services	511,947	-	-	-	-	511,947
Royalty distributions	15,926	-	-	-	-	15,926
Bad debt expense	210,080	-	-	-	-	210,080
Wage and benefit expense	593,598	-	-	-	-	593,598
Building operating expense	72,681	454,622	-	-	-	527,303
Interest income - Change in swap value	-	(146,637)	-	-	-	(146,637)
Interest expense	-	118,023	-	-	-	118,023
Public relations	28,883	-	-	-	-	28,883
Depreciation and amortization expense	277,343	207,575	10,422	-	-	495,340
Professional fees	36,221	-	-	-	-	36,221
Office expense	63,110	-	-	20	-	63,130
Insurance	28,768	-	-	-	-	28,768
<b>Total expenses</b>	<b>5,310,572</b>	<b>633,583</b>	<b>77,317</b>	<b>20</b>	<b>(70,386)</b>	<b>5,951,106</b>
<b>Change in Net Assets</b>	<b>712,131</b>	<b>95,061</b>	<b>53,034</b>	<b>(20)</b>	<b>-</b>	<b>860,206</b>
<b>Net Assets (Deficit) - Unrestricted - Beginning of year</b>	<b>8,412,703</b>	<b>(1,202,021)</b>	<b>(488,510)</b>	<b>(1,565)</b>	<b>-</b>	<b>6,720,607</b>
<b>Net Assets (Deficit) - Unrestricted - End of year</b>	<b>\$ 9,124,834</b>	<b>\$ (1,106,960)</b>	<b>\$ (435,476)</b>	<b>\$ (1,585)</b>	<b>\$ -</b>	<b>\$ 7,580,813</b>

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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, 2017 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 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 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 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' 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 29, 2017



# 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 26, 2017