The University of Akron Research Foundation

Consolidated Financial Statements
with Additional Information
June 30, 2008 and 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
The University of Akron Research Foundation
302 E Buchtel Commons
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, 2007 through June 30, 2008. 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.

Robert R. Hinkle

Robert R. Hinkle, CPA
Chief Deputy Auditor

December 16, 2008

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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, 2008 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of The University of Akron Research Foundation as of and for the year ended June 30, 2007 were audited by other auditors, whose report dated October 8, 2007 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit 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 audit provides 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, 2008 and the consolidated results of its operations and cash flows for the year 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 8, 2008 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 19-20 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 audit.

Plante & Moran, PLLC

October 8, 2008
Toledo, Ohio

The University of Akron Research Foundation

Consolidated Statement of Financial Position

	June 30 2008	June 30 2007
Assets		
Cash and cash equivalents	$ 2,167,391	$ 3,251,576
Short-term investments (Note 3)	2,542,705	1,600,000
Receivables - net (Note 4)	751,982	525,321
Prepaid expenses and other	141,490	152,276
Deposits	10,458	10,458
Total current assets	5,614,026	5,539,631
Long-term investments (Note 3)	560,350	381,691
Property, plant, and equipment - net (Note 5)	3,963,968	4,006,461
Total long-term assets	4,524,318	4,388,152
Total assets	**$ 10,138,344**	**$ 9,927,783**
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 6)	$ 1,277,869	$ 1,214,738
Accrued expenses	251,338	106,605
Accrued professional fees	22,500	28,155
Deferred revenue (Note 7)	1,076,283	756,795
Total current liabilities	2,627,990	2,106,293
Long-term note payable (Note 8)	2,925,000	2,925,000
Total liabilities	5,552,990	5,031,293
Net Assets - Unrestricted	4,585,354	4,896,490
Total liabilities and net assets	**$ 10,138,344**	**$ 9,927,783**

The University of Akron Research Foundation

Consolidated Statement of Activities

	Year Ended June 30 2008	Year Ended June 30 2007
Revenues		
License royalties and fees	$ 1,234,676	$ 6,379,803
Sponsored research	1,843,422	1,612,653
Value received for license	63,809	139,395
Pilot plant income	81,856	57,844
Research funding	83,332	182,999
Cost share support	11,771	11,000
Interest income	189,568	288,351
Patent fee reimbursement	81,535	152,744
In-kind contributions (Note 5)	894,815	-
Rental income	425,543	60,381
Unrealized loss on investments	(228,068)	-
Impairment of investment (Note 3)	(135,150)	-
Miscellaneous income	81,119	257,776
Total revenue	4,628,228	9,142,946
Expenses		
Program services:		
Royalty distributions	447,071	2,910,954
Technical marketing	222,319	1,264,299
Allocated indirect costs	312,520	293,333
Direct costs	1,280,504	1,254,796
Pilot plant expense	76,185	72,016
Research support	241,336	299,099
Regional economic support	68,333	18,050
Scholarships	25,000	27,219
Donated equipment to University of Akron (Note 5)	894,815	93,108
Bad debt expense	180,251	37,582
Cost share support	11,771	11,000
Total program services	3,760,105	6,281,456
Support services:		
Professional fees	43,701	126,182
Wage expense	87,136	49,643
Public relations	71,906	126,149
Depreciation expense	130,854	54,375
Insurance	6,656	8,406
Interest expense	353,797	26,189
Building operating expense	371,682	34,221
Office expense	113,527	25,144
Total support services	1,179,259	450,309
Total expenses	4,939,364	6,731,765
Change in Net Assets	(311,136)	2,411,181
Net Assets - Beginning of year	4,896,490	2,485,309
Net Assets - End of year	**$ 4,585,354**	**$ 4,896,490**

The University of Akron Research Foundation

Consolidated Statement of Cash Flows

	Year Ended June 30 2008	Year Ended June 30 2007
Cash Flows from Operating Activities		
Change in net assets	$ (311,136)	$ 2,411,181
Value received for license	(63,809)	(150,000)
Impairment of investment	135,150	-
Donation of equipment	-	93,108
Depreciation expense	130,854	54,375
Bad debt expense	180,251	-
Unrealized loss on securities	228,068	-
Share in net loss	-	10,605
Cash received in agency transactions	66,600	-
Adjustments to reconcile change in net assets to net cash from operating activities - Changes in operating assets and liabilities:		
Receivables	(440,795)	310,215
Prepaid expenses	10,786	(1,076)
Payables and accrued expenses	169,492	12,298
Deferred revenue	319,488	(360,291)
Net cash provided by operating activities	424,949	2,380,415
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,350,000	1,225,000
Purchase of investments	(2,770,773)	-
Deposits	-	(10,458)
Purchase of buildings and equipment	(88,361)	(3,957,100)
Net cash used in investing activities	(1,509,134)	(2,742,558)
Cash Flows from Financing Activities - Borrowing on long-term debt	-	2,925,000
(Decrease) Increase in Cash and Cash Equivalents	(1,084,185)	2,562,857
Cash and Cash Equivalents - Beginning of year	3,251,576	688,719
Cash and Cash Equivalents - End of year	**$ 2,167,391**	**$ 3,251,576**
Supplemental Disclosures Cash Flow Information - Cash paid for interest	**$ 181,039**	**$ 15,919**

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 a nine-member board of directors (the "Board"). The Board includes the University president, the University vice president for research, two University directors designated by the University president, and five 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 sponsored research contracts and license 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

License revenues represent the royalties and license fees generated from the intellectual property owned by the University and commercialized and marketed by the Research Foundation. Royalties are recognized when earned, over the period of the license agreement. Minimum guaranteed royalties are recognized over the term for which the royalty minimums are guaranteed. License fees are recognized when the Research Foundation receives the payment.

Rental income received from the property held by AIC 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.

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.

Prepaid Expenses - The Research Foundation paid a portion of the royalties to two inventors upon receipt. However, since royalties are allocated over the term covered by royalty, rather than upon receipt, the inventor payments are recorded as a prepaid expense. Prepaid insurance is also included in prepaid expenses.

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

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 period ended June 30, 2008. There were no board-designated net assets as of June 30, 2007.

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

For the fiscal years ended June 30, 2008 and 2007, in-kind support in the amount of $11,771 and $11,000, 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.

Reclassification - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

New Accounting Pronouncements - Financial Accounting Standards Board (FASB) No. 157 (SFAS 157), *Fair Value Measurements,* which was issued in September 2006, addresses how organizations should measure fair value when generally accepted accounting principles require use of fair value measurement for recognition or disclosure purposes. This standard is effective for financial statements issued for the fiscal year ending June 30, 2009. Management is currently evaluating the impact of FAS 157.

Note 2 - Summary of Significant Accounting Policies (Continued)

Financial Accounting Standards Board (FASB) No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities,* which was issued in February 2007, extended the availability of the fair value option to a wide range of financial instruments, both assets and liabilities. This standard is effective for financial statements issued for the fiscal year ending June 30, 2009. Management is currently evaluating the impact of FAS 159.

Financial Accounting Standards Board (FASB) No. 161 (FAS 161), *Disclosures about Derivative Instruments and Hedging Activities,* which was issued in March 2008, amends and expands the disclosure requirements in FAS 133, *Accounting for Derivative Instruments and Hedging Activities* and related literature. This statement changes the disclosure requirements for derivative instruments and hedging activities. This statement is effective for financial statements issued for the fiscal years beginning after November 15, 2008, therefore for the fiscal year ending June 30, 2010. Management is currently evaluating the impact of FAS 161.

Note 3 - Investments

Investments at June 30, 2008 and 2007 are presented in the consolidated financial statements at fair market value and are comprised of the following:

	2008	2007
Marketable securities:		
Money market funds	$ 9,046	$ -
Stock equities and mutual funds	2,533,659	-
Total marketable securities	2,542,705	-
Alternative investments:		
Closely held stock	263,850	339,000
Private equity	46,500	42,691
Total alternative investments	310,350	381,691
Certificates of deposit	250,000	1,600,000
Total investments	$ 3,103,055	$ 1,981,691

Note 3 - Investments (Continued)

On September 1, 2007, an account with Legacy Strategic Asset Management was opened to invest in marketable securities in accordance with the Research Foundation's investment policy. Legacy Strategic Asset Management is a subsidiary of Wachovia Securities and all securities are held by Wachovia Securities Financial Holdings, LLC at June 30, 2008. Earnings on invested amounts are retained in the fund for reinvestment until such time as the 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 for the fiscal year.

Subsequent to year end, the Research Foundation's marketable securities investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

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.

An investee in closely held stock terminated its license agreement with the Research Foundation in February 2008. A settlement was agreed to for the license fees and patent costs, and the balance written off is included as bad debt expense. As a result, it was determined that the equity value should also be reduced and is reported as an investment impairment on the consolidated statement of activities. Impairment has been recognized as the decline in value is deemed other than temporary.

Note 4 - Receivables

Receivables consist of monies due to the Research Foundation at June 30, 2008 and 2007 from sponsored research contracts, license, rents, and for reimbursements of patent expenses by licensees. After known uncollectible accounts are deducted, 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

	2008	2007
Sponsored research	$ 527,832	$ 235,097
Licenses	85,383	48,585
Rents	9,218	27,106
Interest receivable	6,230	48,701
Other receivables	158,319	192,054
Allowance for doubtful accounts	(35,000)	(26,222)
Total	$ 751,982	$ 525,321

Note 5 - Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2008	2007
Land	$ 290,607	$ 290,607
Buildings and building improvements	3,754,854	3,666,493
Equipment	152,725	152,725
Total property, plant, and equipment	4,198,186	4,109,825
Less accumulated depreciation	234,218	103,364
Net carrying amount	$ 3,963,968	$ 4,006,461

Two multi-tenant office buildings and the related land at 411 and 441 Wolf Ledges, adjacent to the University, were purchased on May 14, 2007 for $3,900,000 plus acquisition costs of $50,000.

During 2008, software and equipment was donated to the Research Foundation with a book value of $894,915. The Research Foundation donated $894,915 and $93,108, respectively, to the University during 2008 and 2007. This transaction was recorded as a contribution to the Research Foundation and as donations to the University in the consolidated statement of activities.

Note 6 - 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, 2008 and 2007.

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, 2008 and 2007 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, 2008 and 2007.

The Research Foundation's guidelines and procedures allocate 40 percent of royalties to the inventor/author (inventor) as personal income and 40 percent to the Research Foundation. The remaining 20 percent is maintained within Research Foundation accounts for research use by the inventor and the inventor's college and department. When applicable, 20 percent of the royalty received is paid to a technical marketer before any distributions are made. Undistributed royalties at year end are included in the payable to the University of Akron at year end.

	2008	2007
The University of Akron	$ 1,203,799	$ 1,161,835
Other payables	74,070	52,903
Total	$ 1,277,869	$ 1,214,738

Note 7 - Deferred Revenue

The Research Foundation receives advance payment for certain sponsored research contracts and license agreements which is recorded as deferred revenue. At June 30, 2008 and 2007, the Research Foundation had deferred revenue from the following sources:

	2008	2007
Sponsored research	$ 882,762	$ 554,646
Licenses	187,500	187,500
Advance rent	6,021	14,649
Total	$ 1,076,283	$ 756,795

Note 8 - Note Payable

AIC entered into a $2,925,000 15-year note with CharterOne Bank on May 14, 2007 for the purchase of two buildings on Wolf Ledges in Akron, Ohio. AIC entered into an interest rate swap agreement ("swap") with a swap counterparty on a notional amount equal to $1,950,000. The interest rate for this potion is fixed at 6.39 percent. This swap was determined to be an ineffective hedge and, accordingly, its fair value is recorded as a component of interest expense. The fair value of the interest rate swap agreement is a liability of $141,051 at June 30, 2008 and is included in accrued expenses in the accompanying consolidated statement of financial position. The fair value of the swap agreement at June 30, 2007 is an asset of $36,043 and is included in prepaid expenses in the accompanying consolidated statement of financial position.

The interest rate on the variable portion of the loan, or $975,000 is based on the one-month LIBOR plus 1 percent, an effective rate of 3.46 percent and 6.32 percent at June 30, 2008 and 2007, respectively. The loan is interest only until June 11, 2010, on which the first principal payment is due and matures on May 11, 2022. 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.

Note 8 - Note Payable (Continued)

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

Years Ending June 30		Amount
2009		$ -
2010		4,086
2011		49,301
2012		52,547
2013		56,010
Thereafter		2,763,056
	Total	$ 2,925,000

Under the agreement, AIC and the Research Foundation are subject to various financial covenants. At June 30, 2008, the Research Foundation was in violation of one of those covenants. The bank has waived its right to call the debt related to the violation of the covenant.

Note 9 - Operating Lease Rentals

AIC has operating lease agreements with 12 tenants at the two professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2013. As of June 30, 2008 and 2007, leased buildings and building improvements are recorded at a cost of $3,754,855 and $3,666,493, respectively, with accumulated depreciation of $112,038 and $11,729, respectively.

As of June 30, 2008, the minimum future rentals on the noncancellable portion of the operating lease rentals aggregates $1,214,079 and are due in the five succeeding years as follows:

Years Ending June 30		Amount
2009		$ 414,622
2010		306,060
2011		273,875
2012		195,089
2013		24,433
	Total	$ 1,214,079

Note 10 - 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, 2008 and 2007, the Research Foundation paid $132,588 and $100,276, respectively, to UIV for materials investigation. At June 30, 2008, a receivable of $17,639 has been recorded for research activities being conducted by UIV in connection with the University and University faculty.

University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2008 and 2007, the Research Foundation authorized distributions to the University in the amount of $1,593,024 and $1,548,129, respectively.

Note 11 - Significant Event

In August 2006, the Research Foundation received a one-time royalty of $5,000,000 from a pharmaceutical company for technology developed by several University inventors. The results of this one-time payment affect the consolidated statement of activities in fiscal year 2007 with an increase in royalty revenue and related increases in payment to the inventors and the marketer.

Additional Information

To the Board of Directors
The University of Akron Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation as of and for the year ended June 30, 2008. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the basic consolidated financial statements. The information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

October 8, 2008
Toledo, Ohio

The University of Akron Research Foundation

Consolidating Statement of Financial Position
June 30, 2008

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
Assets				
Cash and cash equivalents	$ 2,147,185	$ 20,206	$ -	$ 2,167,391
Investments at market	2,542,705	-	-	2,542,705
Receivables - Net	742,764	9,218	-	751,982
Prepaid expenses and other	137,483	4,007	-	141,490
Deposits	-	10,458	-	10,458
Total current assets	5,570,137	43,889	-	5,614,026
Investments	310,350	-	-	310,350
Other long-term investments	250,000	-	-	250,000
Investment in subsidiary	1,150,506	-	(1,150,506)	-
Property, plant, and equipment - Net	30,545	3,933,423	-	3,963,968
Total long-term assets	1,741,401	3,933,423	(1,150,506)	4,524,318
Total assets	**$ 7,311,538**	**$ 3,977,312**	**$ (1,150,506)**	**$ 10,138,344**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 1,243,617	$ 34,252	$ -	$ 1,277,869
Accrued expenses	46,694	204,644	-	251,338
Accrued professional fees	22,500	-	-	22,500
Deferred revenue	1,070,262	6,021	-	1,076,283
Total current liabilities	2,383,073	244,917	-	2,627,990
Long-term note payable	-	2,925,000	-	2,925,000
Total	2,383,073	3,169,917	-	5,552,990
Member contributions	-	1,150,506	(1,150,506)	-
Total liabilities	2,383,073	4,320,423	(1,150,506)	5,552,990
Net Assets - Unrestricted	4,928,465	(343,111)	-	4,585,354
Total liabilities and net assets	**$ 7,311,538**	**$ 3,977,312**	**$ (1,150,506)**	**$ 10,138,344**

The University of Akron Research Foundation

Consolidating Statement of Activities
Year Ended June 30, 2008

	University of Akron Research Foundation	Akron Innovation Campus	Eliminations	Total
Revenues				
Sponsored research	$ 1,234,676	$ -	$ -	$ 1,234,676
License royalties and fees	1,843,422	-	-	1,843,422
Value received for license	63,809			63,809
Pilot plant income	81,856	-	-	81,856
Research funding	83,332	-	-	83,332
Cost share support	11,771	-	-	11,771
Interest income	189,568	-	-	189,568
Patent fee reimbursement	81,535	-	-	81,535
In-kind contributions	894,815	-	-	894,815
Rental income	-	509,466	(83,923)	425,543
Unrealized loss on investments	(228,068)	-	-	(228,068)
Impairment of investment	(135,150)	-	-	(135,150)
Miscellaneous	81,119	-	-	81,119
Total revenues	4,202,685	509,466	(83,923)	4,628,228
Expenses				
Royalty distributions	447,071	-	-	447,071
Technical marketing	222,319	-	-	222,319
Allocated indirect costs	312,520	-	-	312,520
Direct costs	1,280,504	-	-	1,280,504
Pilot plant expense	76,185	-	-	76,185
Research support	241,336	-	-	241,336
Regional economic support	68,333	-	-	68,333
Scholarships	25,000	-	-	25,000
Donated equipment	894,815	-	-	894,815
Bad debt expense	180,251	-	-	180,251
Cost share support	11,771	-	-	11,771
Professional fees	43,701	-	-	43,701
Wage expense	87,136	-	-	87,136
Public relations	71,906	-	-	71,906
Depreciation expense	30,545	100,309	-	130,854
Insurance	6,656	-	-	6,656
Interest expense	-	353,797	-	353,797
Building operating expense	83,922	371,683	(83,923)	371,682
Office expense	100,767	12,760	-	113,527
Total expenses	4,184,738	838,549	(83,923)	4,939,364
Change in Net Assets	17,947	(329,083)	-	(311,136)
Net Assets (Deficit) - Unrestricted - Beginning of year	4,910,518	(14,028)	-	4,896,490
Net Assets (Deficit) - Unrestricted - End of year	**$ 4,928,465**	**$ (343,111)**	**$ -**	**$ 4,585,354**

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

To the Board of Trustees
The University of Akron Research Foundation

We have audited the consolidated financial statements of The University of Akron Research Foundation as of and for the year ended June 30, 2008 and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The University of Akron Research Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1, 2008-2, and 2008-3 to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
The University of Akron Research Foundation

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

The University of Akron Research Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit The University of Akron Research Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management of The University of Akron Research Foundation, 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

October 8, 2008
Toledo, Ohio

Reference Number	Findings
2008-1	**Finding Type** - Significant deficiency

Criteria - An entity should have appropriate segregation of duties as a part of the processes and controls for employees who complete account reconciliations. Employees involved in the account reconciliation process should not have the ability to post journal entries in the general ledger.

Condition - The fiscal officer/accountant prepares bank deposits, investment and bank reconciliations, and records journal entries in the general ledger.

Cause - The University of Akron Research Foundation has a limited number of employees given the volume of activity and resources available.

Effect or Potential Effect - A lack of segregation of duties can result in inaccurate financial reporting or misappropriation of assets.

Recommendation - We recommend that an individual independent of the cash cycle prepare a cash log of all cash receipts and reconcile the cash log to the bank deposit prepared by the fiscal officer. The investment reconciliations prepared by the fiscal officer should be reviewed by an independent individual on a regular basis. This review should be documented by a reviewer sign-off.

Views of Responsible Officials and Planned Corrective Actions - UARF has addressed the segregation of duties involving the cash cycle. The administrative assistant opens all the mail, and prepares a cash log and the deposit slip. This cash log along with the bank deposit slip will be used to prepare the monthly bank reconciliation. All bank statements are opened by our treasurer and reviewed for unusual transactions. The UARF accountant then prepares the monthly reconciliation for review by the treasurer. This system involves three individuals.

Reference Number	Findings
2008-2	**Finding Type** - Significant deficiency

Criteria - Revenue earned under sponsor research contracts is estimated using the percentage complete method (direct costs incurred/total budgeted direct costs). The percentage completed at year end should be a reasonable estimate of the actual status of the contract as of that date.

Condition - Out of the 24 contracts confirmed with principal investigators at year end, five indicated the percent complete at year end was at a different stage than the percentage complete used by management in the June 30, 2008 financial statements.

Cause - The percent complete used by management is based on actual expenditures recorded as of June 30, 2008 rather than per the principal investigator for the respective contract.

Effect or Potential Effect - As a result, management increased revenue related to these contracts by approximately $100,000 based on the percent complete confirmed by the principal investigators and an additional $75,000 based on an estimate of those contracts which were not confirmed.

Recommendation - We recommend sponsor research revenue be recorded based on percent complete confirmed with the principal investigators at year end to accurately reflect activity for the year in the financial statements.

Views of Responsible Officials and Planned Corrective Actions - Additional efforts will be made to inquire of a larger percentage of principal investigators for percentage of completion of individual sponsored research projects to more accurately represent the work performed. The new procedures will include emails to the PIs in May of each year requesting analysis of their project's status compared to UARF's percentage of completion estimate. Any discrepancies will be adjusted on UARF's schedule of sponsored research revenue.

Reference Number	Findings
2008-3	**Finding Type** - Significant deficiency

Criteria - The Research Foundation acts as an intermediary for applied research contracts between the University and independent third parties. Activity related to the University should be recorded in the University's general ledger.

Condition - The Research Foundation invoices third parties for research performed by the University and distributes cash received under these contracts to the University. The contracts name the University as the beneficiary and, therefore, all cash received and paid under applied research contracts should not be recorded on the statement of activities.

Cause - The activity of these transactions was recorded on the statement of activities as the invoicing and related cash receipts were completed by the Research Foundation for the University.

Effect or Potential Effect - As a result of the condition described above, revenue and expense amounts were overstated and management posted an entry to reduce the change in net assets by approximately $30,000 for the year ended June 30, 2008.

Recommendation - We recommend that the Research Foundation review the processes related to these types of transactions and determine if the invoicing and subsequent cash receipts should be completed by the Research Foundation or the University. The Research Foundation should review the activity related to such transactions to ensure this activity is not recorded on its books going forward.

Views of Responsible Officials and Planned Corrective Actions - As recommended by the auditors, the funds generated by the applied research department will be reported as a liability when the cash is received, rather than as revenue and expense. Notwithstanding, the current procedures for reporting applied research activities are being reviewed campus-wide. Personnel for the controller's office, sponsored programs, and the Research Foundation will be involved in meetings in the near future. December 31, 2008 is our timeline for a new policy and procedure involving experimental testing activities and their proper documentation and reporting. Vice President Newcomb will be eliminating such applied research projects; all such contracts will be handled as normal grants and contracts through the Office of Sponsored Programs and Research.

Mary Taylor, CPA
Auditor of State

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 31, 2008

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