

**THE UNIVERSITY OF AKRON RESEARCH
FOUNDATION AND SUBSIDIARIES**

Akron, Ohio

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018



88 East Broad Street
Columbus, Ohio 43215
IPARepor@ohioauditor.gov
(800) 282-0370

Board of Directors
The University of Akron Research Foundation and Subsidiaries
170 University Circle
Akron, Ohio 44325

We have reviewed the *Independent Auditor's Report* of The University of Akron Research Foundation and Subsidiaries, Summit County, prepared by Crowe LLP, for the audit period July 1, 2018 through June 30, 2019. 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.

Keith Faber
Auditor of State
Columbus, Ohio

December 19, 2019

This page intentionally left blank.

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
Akron, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES.....	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
CONSOLIDATING STATEMENT OF FINANCIAL POSITION.....	18
CONSOLIDATING STATEMENT OF ACTIVITIES	19
INDEPENDENT AUDITOR'S 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	20

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

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

Report on the 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 statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, the statement of functional expenses for the year end June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the 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 audit 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 opinion.

(Continued)

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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statement of Financial Position and the Consolidating Statement of Activities, as identified in the table of contents, are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Crowe LLP

Columbus, Ohio
October 15, 2019

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,702,809	\$ 1,965,161
Short-term investments (Notes 4 and 5)	7,501,610	7,055,765
Receivables - Net (Note 6)	916,882	930,333
Prepaid expenses and other	<u>228,497</u>	<u>184,991</u>
Total current assets	10,349,798	10,136,250
Long-term investments (Note 4)	771,583	452,031
Property, plant, and equipment - Net (Note 7)	<u>4,614,776</u>	<u>4,773,197</u>
Total long-term assets	<u>5,386,359</u>	<u>5,225,228</u>
Total assets	<u>\$ 15,736,157</u>	<u>\$ 15,361,478</u>
LIABILITIES AND NET ASSETS		
Accounts payable (Note 8)	\$ 3,941,820	\$ 3,602,339
Accrued expenses	564,248	460,256
Deferred revenue (Note 9)	591,427	691,380
Current portion of note payable (Note 10)	87,563	82,156
Fair value of interest rate swap (Notes 5 and 10)	<u>159,895</u>	<u>153,244</u>
Total current liabilities	5,344,953	4,989,375
Long-term note payable (Note 10)	<u>2,253,224</u>	<u>2,340,339</u>
Total liabilities	7,598,177	7,329,714
Net assets without donor restrictions		
University of Akron Research Foundation and Subsidiaries	8,137,980	7,953,486
Non controlling interest in subsidiary (Note 11)	<u>-</u>	<u>78,278</u>
Total net assets	<u>8,137,980</u>	<u>8,031,764</u>
Total liabilities and net assets	<u>\$ 15,736,157</u>	<u>\$ 15,361,478</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue		
Polymer training	\$ 922,235	\$ 1,020,652
Sponsored research	418,122	888,861
Experimental services	386,934	408,132
Rental income	631,743	686,346
License royalties and fees	224,818	169,419
Research funding	250,424	763,322
Investment income	247,617	197,167
Patent fee reimbursement	604,072	444,234
Realized and unrealized gain on investments	430,895	386,439
In-kind contributions	25,000	30,700
Other income	<u>213,582</u>	<u>282,610</u>
Total revenue	4,355,442	5,277,882
Expenses		
Program services:		
Polymer training	687,732	745,659
Direct costs	354,528	757,949
Allocated indirect costs	144,163	173,656
Research support	676,006	942,367
Experimental services	336,973	257,261
Royalty distributions	121,023	129,105
Bad debt expense	97,019	41,681
Depreciation and amortization expense	<u>399,218</u>	<u>404,745</u>
Total program services	2,816,662	3,452,423
Support services:		
Wages and benefits	690,944	791,133
Building operating	483,200	482,339
Interest (income) loss - Change in swap value (Note 10)	6,651	(109,901)
Interest expense	129,801	126,954
Public relations	23,096	29,395
Professional fees	27,000	30,430
Office expense	39,475	71,475
Insurance	<u>32,397</u>	<u>30,961</u>
Total support services	<u>1,432,564</u>	<u>1,452,787</u>
Total expenses	<u>4,249,226</u>	<u>4,905,209</u>
Revenues in excess of expenses		
Consolidated	106,216	372,673
Attributable to non controlling interest	<u>-</u>	<u>78,278</u>
Change in net assets	106,216	450,951
Net assets - beginning of year	<u>8,031,764</u>	<u>7,580,813</u>
Net assets - end of year	<u>\$ 8,137,980</u>	<u>\$ 8,031,764</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 106,216	450,951
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Noncash items:		
Depreciation and amortization expense	399,218	404,745
Bad debt expense	97,019	41,681
Realized and unrealized (gain) on securities	(297,488)	(386,439)
Change in interest rate swap	6,651	(109,901)
Purchase of long-term investment	(219,819)	-
Changes in operating assets and liabilities:		
Receivables	(83,529)	(326,661)
Prepaid expenses	(43,506)	(44,572)
Payables and accrued expenses	443,473	220,955
Deferred revenue	(99,953)	(358,704)
Net cash and cash equivalents (used in) provided by operating activities	308,282	(107,945)
Cash flows from investing activities		
Purchases of investments	(247,019)	(913,826)
Proceeds from sales of investments	-	1,641,284
Purchase of property and equipment	(241,907)	(260,254)
Net cash and cash equivalents provided by (used in) investing activities	(488,926)	467,204
Cash flows from financing activities		
Payments on debt	(81,708)	(77,077)
Decrease in cash and cash equivalents	(262,352)	(282,182)
Cash and cash equivalents - beginning of year	1,965,161	1,682,979
Cash and cash equivalents - end of year	\$ 1,702,809	\$ 1,965,161
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 129,801	\$ 126,954
In-kind contribution disclosure	25,000	30,700
Realized loss in long-term investment	179,098	-

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2019

Expenses	Research and Commercialization	Polymer Training	Innovation Campus	Total Program	Research	Innovation Campus	Administration	Total Support Services	Total
Contracted - Polymer training	\$ -	\$ 687,732	\$ -	\$ 687,732	\$ -	\$ -	\$ -	\$ -	\$ 687,732
Contracted - Direct and indirect costs	279,137	219,554	-	498,691	-	-	-	-	498,691
Contracted - Research support	676,006	-	-	676,006	-	-	-	-	676,006
Contracted - Experimental Services	336,973	-	-	336,973	-	-	-	-	336,973
Contracted - Royalty distributions	121,023	-	-	121,023	-	-	-	-	121,023
Bad debt expense	97,019	-	-	97,019	-	-	-	-	97,019
Wage and benefit expense	-	-	-	-	517,426	-	173,518	690,944	690,944
Building operating expense	-	-	-	-	-	483,200	-	483,200	483,200
Interest income - Change in swap value	-	-	-	-	-	6,651	-	6,651	6,651
Interest expense	-	-	-	-	-	129,801	-	129,801	129,801
Conference and travel	-	-	-	-	23,096	-	-	23,096	23,096
Depreciation and amortization expense	199,886	-	199,332	399,218	-	-	-	-	399,218
Professional fees	-	-	-	-	-	-	27,000	27,000	27,000
Office expense	-	-	-	-	26,268	-	13,207	39,475	39,475
Insurance	-	-	-	-	32,397	-	-	32,397	32,397
Total expenses	<u>\$ 1,710,044</u>	<u>\$ 907,286</u>	<u>\$ 199,332</u>	<u>\$ 2,816,662</u>	<u>\$ 599,187</u>	<u>\$ 619,652</u>	<u>\$ 213,725</u>	<u>\$ 1,432,564</u>	<u>\$ 4,249,226</u>

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

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, 2018. Akron Innovation Campus LLC (AIC), Akron Surface Technologies (ASTI) and PolyMedTech, Inc. (PMT) are consolidated in the fiscal year 2018 statements.

Akron Surface Technologies, Inc. (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. The Research Foundation was a majority stockholder of ASTI at June 30, 2018. 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, 2018.

Effective February 2019, the Research Foundation became a 46% shareholder of ASTI. For the June 30, 2019 statements ASTI is not a consolidated subsidiary, instead the valuation of the ASTI holding is recorded on statement of financial position using the equity method of accounting in long-term investments. The consolidated statements ended June 30, 2019 include the wholly owned subsidiaries, PMT and AIC.

AIC was formed in 2007 to hold two buildings and related property.

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, 2019 and 2018.

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 owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Principal Revenues and Expenses: The Research Foundation's principal revenue is derived from the polymer training program, sponsored research contracts, patent fee reimbursement and experimental services agreements.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Effective March 2015, sponsored research contracts largely became two-party agreements between the sponsor and the University. The Research Foundation 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 assists the University of Akron in securing patents in connection with its research and licensing. The legal fees incurred to secure these patents are reimbursed by licensees. Revenue is recorded as the underlying expenses are incurred. The expenses associated with securing the patents are recorded as research support expense on the statement of activities.

The Research Foundation has partnered with the Saudi Basic Industries Corporation and Higher Institute for Elastomer Industries to provide the training, teaching, management and other academic resources to advance polymer and materials education through the institute. The new agreement is lesser in scope than the initial contract. The current agreement extends through August 31, 2020. The related polymer training revenue is recognized as costs are incurred 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 \$329,936 and \$408,640 as of June 30, 2019 and 2018, respectively (see Note 9).

The Research Foundation facilitates experimental services for professors by managing agreements between the customer and the University. The Research Foundation invoices and collects the fees for these services. Revenue is recognized as services are provided.

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 12)

Functional Allocation of Expenses: The statement of activities reflect certain categories of expenses attributable to the programs and supporting functions of the Research Foundation. Program Activities include research and commercialization and polymer training and innovation campus. Supporting Activities include administrative support. The Consolidated Statement of Functional Expenses presents these functional expenses by their natural classification for the year ended June 30, 2019. Costs are allocated between the various programs and support activities on an actual basis, where available, or based upon the functional expense area most related to their purpose.

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. In addition, the Research Foundation maintains cash and cash equivalents that exceed federally insured amounts. The Research Foundation continually monitors its balance to minimize risk of loss.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Prepaid Expenses: Insurance and other expenses were paid in advance. The costs related to the current fiscal year are recognized as expense and payments for expenses yet to be incurred are 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.

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, receivables, 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 1 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.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 services being provided 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 net assets without donor restrictions 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, 2019 and 2018. There were no other board-designated net assets as of June 30, 2019 and 2018.

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, 2019 and 2018, in-kind support was provided by the University and others in the amount of \$25,000 and \$30,700, respectively.

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

Subsequent Events: The Consolidated financial statements and related disclosures included evaluation of events up through and including October 15, 2019, 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. The standard will be effective for annual periods beginning after June 30, 2019.

In February 2016, FASB issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. 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 cumulative effect adjustment on adoption to the beginning of the earliest period presented.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement: In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) (ASU 2016-14)*. ASU 2016-14 makes several improvements to current reporting requirements that address the complexities related to not-for-profit reporting. The guidance requires the Research Foundation to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method but no longer requires the presentation of the indirect method reconciliation if using the direct method. The standard requires the Research Foundation to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions, among other requirements. There was no impact on the changes in the net asset classes for each period presented as a result of the adoption. It requires the Research Foundation to provide qualitative and quantitative information that communicates how the Research Foundation manages liquid resources available to meet cash needs within one year of the statement of financial position date. It also requires the Research Foundation to disclose expenses by both natural and functional classification as well as methods used to allocate between program and support functions. ASU 2016-14 requires the Research Foundation to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Research Foundation implemented this guidance for the year ended June 30, 2019. The Research Foundation implemented ASC 2016-14 using a full retrospective method of application, except for the functional expense and liquidity and availability disclosures which are shown for one year only. New disclosures are located in the statements of financial position, statement of activities, statement of functional expenses, and Note 3.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Research Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2019</u>
Cash and cash equivalents	\$ 1,702,809
Short-term investments (Note 5)	7,501,610
Accounts receivable (Note 6)	<u>916,882</u>
	10,121,301
Amounts deferred (Note 9)	<u>(591,427)</u>
Total financial assets available	<u>\$ 9,529,874</u>

As part of the Research Foundation's liquidity management, the Research Foundation invests its financial assets to be available as its general expenses, liabilities, and other obligations come due.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 4 - INVESTMENTS

Investments at June 30, 2019 and 2018 are presented in the consolidated financial statements at fair market value and are composed of the following:

	<u>2019</u>	<u>2018</u>
Marketable securities - Stock equities and mutual funds (Note 5)	\$ 7,501,610	\$ 7,055,765
Alternative investments:		
Closely held stock and private equity (equity method)	385,300	279,000
Closely held stock and private equity (cost method)	<u>386,283</u>	<u>173,031</u>
Total alternative investments	<u>771,583</u>	<u>452,031</u>
Total investments	<u>\$ 8,273,193</u>	<u>\$ 7,507,796</u>

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

The Research Foundation does not exercise significant influence over the operating and financial policies of its alternative investments. These investments are periodically evaluated to determine if there have been any other-than-temporary declines below book value. A variety of factors is considered when determining if a decline in fair value below book value is other than temporary, including, among others, the financial condition and prospects of the investee.

NOTE 5 - FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provides 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 limited, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2019 and 2018, there were no transfers between levels of the fair value hierarchy.

The following tables present information about the Research Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018 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, 2019:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2019
Assets - Short-term investments				
Exchange traded funds:				
Large growth	\$ 903,304	\$ -	\$ -	\$ 903,304
Large value	869,908	-	-	869,908
Mutual funds:				
Fixed income	1,949,858	-	-	1,949,858
Small- and mid-cap growth	916,539	-	-	916,539
Alternatives	1,327,361	-	-	1,327,361
Internationals	<u>1,534,640</u>	<u>-</u>	<u>-</u>	<u>1,534,640</u>
Total assets	<u>\$ 7,501,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,501,610</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ (159,895)</u>	<u>\$ -</u>	<u>\$ (159,895)</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2018:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance June 30, 2018
Assets - Short-term investments				
Exchange traded funds:				
Large growth	\$ 807,644	\$ -	\$ -	\$ 807,644
Large value	797,903	-	-	797,903
Mutual funds:				
Fixed income	1,830,832	-	-	1,830,832
Small- and mid-cap growth	803,820	-	-	803,820
Alternatives	1,263,712	-	-	1,263,712
Internationals	<u>1,551,854</u>	<u>-</u>	<u>-</u>	<u>1,551,854</u>
Total assets	<u>\$ 7,055,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,055,765</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ (153,244)</u>	<u>\$ -</u>	<u>\$ (153,244)</u>

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The fair value of the interest rate swap at June 30, 2019 and 2018 was determined primarily based on Level 2 inputs. The Research Foundation's estimate of the fair value of the swap is based on a valuation model that takes into account estimates of changes in interest rates based on yield curves and other market-based information as provided by the bank.

NOTE 6 - RECEIVABLES

Receivables consist of monies due to the Research Foundation at June 30, 2019 and 2018 from sponsored research contracts, licenses, rents, and other. After known uncollectible accounts and the polymer training receivable are deducted, approximately 5 percent of the remaining receivable balance is allocated to a general allowance for doubtful accounts.

	<u>2019</u>	<u>2018</u>
Sponsored research	\$ 80,963	\$ 155,490
Polymer training	88,217	211,572
Patent	509,212	261,891
Experimental services	171,019	164,947
Licenses	4,969	17,469
Other	107,502	153,964
Allowance for doubtful accounts	<u>(45,000)</u>	<u>(35,000)</u>
Total	<u>\$ 916,882</u>	<u>\$ 930,333</u>

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 406,925	\$ 406,925
Buildings and building improvements	5,911,635	5,669,729
Equipment	<u>2,373,478</u>	<u>2,446,429</u>
Total property, plant, and equipment	8,692,038	8,523,083
Less accumulated depreciation	<u>(4,077,262)</u>	<u>(3,749,886)</u>
Net carrying amount	<u>\$ 4,614,776</u>	<u>\$ 4,773,197</u>

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$378,016 and \$382,431, respectively.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended June 30, 2019

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable are apportioned as follows at June 30:

	<u>2019</u>	<u>2018</u>
The University of Akron	\$ 3,731,901	\$ 3,287,599
Other nonrelated parties	<u>209,919</u>	<u>314,740</u>
Total	<u>\$ 3,941,820</u>	<u>\$ 3,602,339</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, 2019 and 2018.

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, 2019 and 2018 are included in the payable to the University of Akron.

NOTE 9 - 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 until earned. At June 30, 2019 and 2018, the Research Foundation had deferred revenue from the following sources:

	<u>2019</u>	<u>2018</u>
Sponsored research and license	\$ 201,454	\$ 241,012
Polymer training	329,936	408,640
Rental income	<u>60,037</u>	<u>41,728</u>
Total	<u>\$ 591,427</u>	<u>\$ 691,380</u>

NOTE 10 - NOTE PAYABLE

AIC entered into a \$2,925,000 15-year note with Citizens 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%.

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 percent 2.41% and 2.92% at June 30, 2019 and 2018, respectively.

The balance due on the note at June 30, 2019 and 2018 was \$2,340,787 and \$2,422,495, respectively.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 10 - NOTE PAYABLE (Continued)

As of June 30, 2019 and 2018, the swap agreement is summarized as follows:

Pay-fixed interest rate swap
(receive-variable):

	<u>Change in Fair Value</u>		<u>Fair Value</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
June 30, 2019	Interest expense	\$ 6,651	Debt	\$ 159,895	\$ 1,560,238
June 30, 2018	Interest income	\$ (109,901)	Debt	\$ 153,244	\$ 1,616,669

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

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, 2019 and 2018, 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:

<u>Years Ending June 30</u>	<u>Amount</u>
2020	\$ 87,563
2021	93,342
2022	<u>2,159,882</u>
Total	<u>\$ 2,340,787</u>

NOTE 11 - NON CONTROLLING INTEREST IN SUBSIDIARY

On April 1, 2018 The Research Foundation converted its receivable from the wholly owned subsidiary - Akron Surface Technologies (ASTI) into 81 shares of ASTI. At the same time, ASTI issued additional shares to another debt holder thus reducing The Research Foundation's ownership in ASTI to 84%. ASTI's activities for fiscal year 2018 are included in these consolidated statements and the Research Foundation's non-controlling interests in ASTI are reported in the net asset portion of the Statement of Financial Position. As of June 30, 2018 the non-controlling interest in ASTI is \$78,278.

As June 30, 2019 the Research Foundation is one of three shareholders in ASTI. The Research Foundation does not have a majority ownership. The activity for fiscal year 2019 is not included in the consolidated statements. The equity is valued on the cost method in the long-term investments on the Statement of Financial Position.

(Continued)

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year ended June 30, 2019

NOTE 12 - OPERATING LEASE RENTALS

AIC and the Research Foundation have operating lease agreements to lease space to 22 tenants at its three professional buildings. Rental income is recognized over the life of the operating lease, with leases expiring through June 30, 2029. As of June 30, 2019 and 2018, leased buildings and building improvements are recorded within property, plant, and equipment at a cost of \$5,911,635 and \$5,669,729, respectively, with accumulated depreciation of \$2,255,751 and \$2,044,922, respectively.

As of June 30, 2019, the minimum future rentals on the noncancelable portion of the operating lease rentals aggregate \$1,655,027 and are due in the fiscal years ending June 30 as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2020	\$ 456,353
2021	298,861
2022	202,784
2023	143,924
Thereafter	<u>553,105</u>
Total	<u>\$ 1,655,027</u>

NOTE 13 - RELATED PARTIES

The Research Foundation has a contractual agreement with Akron Ascent Innovation (AAI) and Ocius, Inc. perform services at a stated price. The Research Foundation has minority interest in both companies. For the years ended June 30, 2019 and 2018, AAI and Ocius reimbursed the Research Foundation for \$47,043 and \$120,552, respectively for expenses paid on their behalf. As of June 30, 2019 and 2018 the Research Foundation has recorded a receivable due from AAI of \$ 11,880 and \$23,136, respectively. This amount is included in net receivables on the consolidated statements of financial position.

The University of Akron is a public institution offering a broad array of programs. During the years ended June 30, 2019 and 2018, the Research Foundation transferred \$1,000,652 and \$1,433,131, respectively, to the University for research and polymer training expenses.

NOTE 14 - 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 at 100 Percent of employee contributions up to 3 percent plus 50 percent of the employee contributions between 3 percent and 5 percent of participant compensation. The Research Foundation's total contribution was \$37,409 and \$35,583 for the years ended June 30, 2019 and 2018, respectively.

SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2019

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
ASSETS						
Cash and cash equivalents	\$ 1,607,468	\$ 86,915	\$ -	\$ 8,426	\$ -	\$ 1,702,809
Investments at market	7,501,610	-	-	-	-	7,501,610
Receivables - Net	913,245	3,637	-	-	-	916,882
Prepaid expenses and other	<u>176,249</u>	<u>52,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,497</u>
Total current assets	10,198,572	142,800	-	8,426	-	10,349,798
Investments	781,583	-	-	-	(10,000)	771,583
Investment in subsidiary	2,098,236	-	-	-	(2,098,236)	-
Property, plant, and equipment - Net	<u>1,153,442</u>	<u>3,461,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,614,776</u>
Total long-term assets	<u>4,033,262</u>	<u>3,461,333</u>	<u>-</u>	<u>-</u>	<u>(2,108,236)</u>	<u>5,386,359</u>
Total assets	<u>\$ 14,231,834</u>	<u>\$ 3,604,133</u>	<u>\$ -</u>	<u>\$ 8,426</u>	<u>\$ (2,108,236)</u>	<u>\$ 15,736,157</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
Liabilities						
Accounts payable	\$ 3,920,976	\$ 20,793	\$ -	\$ 51	\$ -	\$ 3,941,820
Accrued expenses	501,719	62,529	-	-	-	564,248
Deferred revenue	533,946	57,481	-	-	-	591,427
Current portion of note	-	87,563	-	-	-	87,563
Fair value of interest rate swap	<u>-</u>	<u>159,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,895</u>
Total current liabilities	4,956,641	388,261	-	51	-	5,344,953
Long-term note payable	<u>-</u>	<u>2,253,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,253,224</u>
Total liabilities	4,956,641	2,641,485	-	51	-	7,598,177
Member contributions	<u>-</u>	<u>2,098,236</u>	<u>-</u>	<u>10,000</u>	<u>(2,108,236)</u>	<u>-</u>
	4,956,641	4,739,721	-	10,051	(2,108,236)	7,598,177
Net assets (deficit) without donor restrictions						
University of Akron Research Foundation and Subsidiaries						
Total net assets (deficit)	<u>9,275,193</u>	<u>(1,135,588)</u>	<u>-</u>	<u>(1,625)</u>	<u>-</u>	<u>8,137,980</u>
Total liabilities and net assets (deficit)	<u>\$ 14,231,834</u>	<u>\$ 3,604,133</u>	<u>\$ -</u>	<u>\$ 8,426</u>	<u>\$ (2,108,236)</u>	<u>\$ 15,736,157</u>

See Independent Auditor's Report

THE UNIVERSITY OF AKRON RESEARCH FOUNDATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	University of Akron Research Foundation	Akron Innovation Campus LLC	Akron Surface Technologies, Inc.	PolyMedTech, Inc.	Eliminations	Total
Revenue						
Polymer training	\$ 922,234	\$ -	\$ -	\$ -	\$ -	\$ 922,234
Sponsored research	418,122	-	-	-	-	418,122
Experimental services	386,934	-	-	-	-	386,934
Rental income	51,394	651,011	-	-	(70,662)	631,743
License royalties and fees	224,818	-	-	-	-	224,818
Research funding	250,424	-	-	-	-	250,424
Interest income	247,617	-	-	-	-	247,617
Patent fee reimbursement	604,072	-	-	-	-	604,072
Realized and unrealized gain on investments	430,895	-	307,477	-	(307,477)	430,895
In-kind contributions	25,000	-	-	-	-	25,000
Other income	213,583	-	-	-	-	213,583
Total revenue	<u>3,775,093</u>	<u>651,011</u>	<u>307,477</u>	<u>-</u>	<u>(378,139)</u>	<u>4,355,442</u>
Expenses						
Polymer training expense	687,732	-	-	-	-	687,732
Direct costs	354,528	-	-	-	-	354,528
Allocated indirect costs	144,163	-	-	-	-	144,163
Research support	746,668	-	-	-	(70,662)	676,006
Experimental services	336,973	-	-	-	-	336,973
Royalty distributions	121,023	-	-	-	-	121,023
Bad debt expense	97,019	-	-	-	-	97,019
Wage and benefit expense	690,944	-	-	-	-	690,944
Building operating expense	70,065	413,135	-	-	-	483,200
Interest income - Change in swap value	-	6,651	-	-	-	6,651
Interest expense	-	129,801	-	-	-	129,801
Public relations	23,096	-	-	-	-	23,096
Depreciation and amortization expense	199,886	199,332	-	-	-	399,218
Professional fees	27,000	-	-	-	-	27,000
Office expense	39,455	-	-	20	-	39,475
Insurance	32,397	-	-	-	-	32,397
Total expenses	<u>3,570,949</u>	<u>748,919</u>	<u>-</u>	<u>20</u>	<u>(70,662)</u>	<u>4,249,226</u>
Revenues (Expenses) in excess of expenses						
Change in Net Assets	204,144	(97,908)	307,477	(20)	(307,477)	106,216
Net Assets (Deficit) Without Donor Restrictions						
Beginning of year	<u>9,378,526</u>	<u>(1,037,680)</u>	<u>(307,477)</u>	<u>(1,605)</u>	<u>-</u>	<u>8,031,764</u>
Net Assets (Deficit) - Without Donor Restrictions						
End of year	<u>\$ 9,582,670</u>	<u>\$ (1,135,588)</u>	<u>\$ -</u>	<u>\$ (1,625)</u>	<u>\$ (307,477)</u>	<u>\$ 8,137,980</u>

See Independent Auditor's Report

INDEPENDENT AUDITOR'S 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*

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 financial statements of The University of Akron Research Foundation and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2019.

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 University of Akron Research Foundation and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of The University of Akron Research Foundation and Subsidiaries' 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 entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of Akron Research Foundation and Subsidiaries' financial statements are free of 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Columbus, Ohio
October 15, 2019

OHIO AUDITOR OF STATE KEITH FABER



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, 2019