

**KENNESAW STATE UNIVERSITY  
RESEARCH AND SERVICE  
FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2016**

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**FINANCIAL REPORT  
JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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**To the Board of Directors  
Kennesaw State University Research and Service Foundation, Inc.  
Kennesaw, Georgia**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Kennesaw State University Research and Service Foundation, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kennesaw State University Research and Service Foundation, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**Other Matters****Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 March 28, 2017, on our consideration of Kennesaw State University Research and Service Foundation, Inc.'s 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 Kennesaw State University Research and Service Foundation, Inc.'s internal control over financial reporting and compliance.



Atlanta, Georgia  
March 28, 2017

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

<u>Assets</u>	<u>2016</u>	<u>2015</u>
<b>Current assets</b>		
Cash	\$ 2,900,828	\$ 2,505,251
Investments	1,685,704	1,681,136
Grants receivable	2,375,743	1,480,375
Prepaid expenses	-	32,725
Project advances	82,622	85,471
	<b>7,044,897</b>	<b>5,784,958</b>
<b>Total current assets</b>		
	<b>7,044,897</b>	<b>5,784,958</b>
<b>Total assets</b>	<b>\$ 7,044,897</b>	<b>\$ 5,784,958</b>
 <b><u>Liabilities and Net Assets</u></b>  		
<b>Current liabilities</b>		
Accounts payable	\$ 3,327,480	\$ 2,063,981
Current maturities of long-term debt	-	3,236
Deferred revenue	1,211,083	1,799,756
	<b>4,538,563</b>	<b>3,866,973</b>
<b>Total current liabilities</b>		
	<b>4,538,563</b>	<b>3,866,973</b>
<b>Total liabilities</b>	<b>4,538,563</b>	<b>3,866,973</b>
<b>Net assets</b>		
Unrestricted	2,005,718	1,531,711
Temporarily restricted	500,616	386,274
	<b>2,506,334</b>	<b>1,917,985</b>
<b>Total net assets</b>		
	<b>2,506,334</b>	<b>1,917,985</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,044,897</b>	<b>\$ 5,784,958</b>

**See Notes to Financial Statements.**

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support</b>			
Contributions	\$ 28,049	\$ 643,188	\$ 671,237
Grants	6,293,077	125,007	6,418,084
Sales and service revenue	2,309,385	-	2,309,385
Royalties	45,542	-	45,542
Donated services and equipment	286,372	-	286,372
Interest income	11,691	-	11,691
Other income	59,561	-	59,561
Net assets released from restrictions	653,853	(653,853)	-
<b>Total revenues and other support</b>	<b>9,687,530</b>	<b>114,342</b>	<b>9,801,872</b>
<b>Expenses</b>			
Research grants and contracts	8,804,368	-	8,804,368
Development of intellectual property	242,457	-	242,457
Management and general	166,698	-	166,698
<b>Total expenses</b>	<b>9,213,523</b>	<b>-</b>	<b>9,213,523</b>
Change in net assets	474,007	114,342	588,349
Net assets, beginning of year	1,531,711	386,274	1,917,985
Net assets, end of year	<u>\$ 2,005,718</u>	<u>\$ 500,616</u>	<u>\$ 2,506,334</u>

**See Notes to Financial Statements.**

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support</b>			
Contributions	\$ 28,004	\$ 589,951	\$ 617,955
Grants	4,054,901	153,096	4,207,997
Sales and service revenue	1,839,619	-	1,839,619
Royalties	32,575	-	32,575
Donated services and equipment	206,053	-	206,053
Interest income	5,670	-	5,670
Other income	56,222	-	56,222
Net assets released from restrictions	710,868	(710,868)	-
<b>Total revenues and other support</b>	<b>6,933,912</b>	<b>32,179</b>	<b>6,966,091</b>
<b>Expenses</b>			
Research grants and contracts	6,334,488	-	6,334,488
Development of intellectual property	136,550	-	136,550
Management and general	148,010	-	148,010
<b>Total expenses</b>	<b>6,619,048</b>	<b>-</b>	<b>6,619,048</b>
Change in net assets	314,864	32,179	347,043
Net assets, beginning of year	1,216,847	354,095	1,570,942
Net assets, end of year	<u>\$ 1,531,711</u>	<u>\$ 386,274</u>	<u>\$ 1,917,985</u>

**See Notes to Financial Statements.**

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>			<u>Total</u>
	<u>Research &amp; Service Grants and Contracts</u>	<u>Development of Intellectual Property</u>	<u>Management and General</u>	
<b>Expenses</b>				
Advertising	\$ 13,368	\$ -	\$ -	\$ 13,368
Bank fees	14,912	-	11,039	25,951
Consultants/Honorariums	1,351,696	6,492	8,738	1,366,926
Dues and subscriptions	37,387	377	109	37,873
Equipment	329	649	-	978
Gifts and contributions	18,963	-	554	19,517
Management fee	47,323	64	-	47,387
Insurance	24,916	-	3,266	28,182
Legal and accounting	3,102	132,581	20,502	156,185
Licenses and permits	22,829	-	366	23,195
Materials and supplies	140,305	77	1,803	142,185
Meals and entertainment	216,966	-	8,082	225,048
Miscellaneous	3,794	-	-	3,794
Postage	8,738	-	20	8,758
Printing	37,699	-	-	37,699
Recruiting expense	1,500	-	-	1,500
Registration fees	524,967	-	10,030	534,997
Rent	201,169	2,125	-	203,294
Grants and contracts subcontracted to KSU	5,568,606	-	-	5,568,606
Donated salaries	86,188	100,092	100,092	286,372
Scholarships	25,200	-	-	25,200
Sponsorships	11,630	-	-	11,630
Stipends	26,902	-	-	26,902
Telephone	6,695	-	-	6,695
Travel	382,367	-	2,097	384,464
Utilities	146	-	-	146
Testing fees	26,671	-	-	26,671
<b>Total expenses</b>	<u>\$ 8,804,368</u>	<u>\$ 242,457</u>	<u>\$ 166,698</u>	<u>\$ 9,213,523</u>

**See Notes to Financial Statements.**



**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2015**

	<u>Program Services</u>			<u>Total</u>
	<u>Research &amp; Service Grants and Contracts</u>	<u>Development of Intellectual Property</u>	<u>Management and General</u>	
<b>Expenses</b>				
Advertising	\$ 44,353	\$ -	\$ -	\$ 44,353
Bank fees	3,374	-	7,737	11,111
Consultants/Honorariums	801,642	-	88	801,730
Amortization	-	-	529	529
Dues and subscriptions	31,260	-	155	31,415
Equipment	8,221	-	9,758	17,979
Gifts and contributions	35,205	-	202	35,407
Management fee	49,066	14	-	49,080
Information technology services	-	-	750	750
Insurance	46,372	-	3,345	49,717
Legal and accounting	477	60,316	20,376	81,169
Licenses and permits	13,843	-	-	13,843
Materials and supplies	93,089	-	1,517	94,606
Meals and entertainment	257,082	459	3,192	260,733
Miscellaneous	1,748	-	-	1,748
Postage	12,871	-	-	12,871
Printing	34,470	-	-	34,470
Promotional material and incentives	10	-	-	10
Recruiting expense	2,946	-	-	2,946
Registration fees	58,095	-	20,030	78,125
Rent	462,140	-	-	462,140
Grants and contracts subcontracted to KSU	3,941,224	-	3,839	3,945,063
Donated salaries	54,530	75,761	75,762	206,053
Scholarships	10,993	-	-	10,993
Sponsorships	11,755	-	-	11,755
Stipends	22,700	-	-	22,700
Telephone	6,163	-	-	6,163
Travel	327,668	-	730	328,398
Utilities	3,191	-	-	3,191
<b>Total expenses</b>	<b>\$ 6,334,488</b>	<b>\$ 136,550</b>	<b>\$ 148,010</b>	<b>\$ 6,619,048</b>

**See Notes to Financial Statements.**

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 588,349	\$ 347,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	-	529
Net change in:		
Grants receivable	(895,368)	118,830
Prepaid expenses and other assets	35,574	(45,586)
Accounts payable	1,263,499	383,858
Deferred revenue	(588,673)	701,157
Net cash provided by operating activities	<u>403,381</u>	<u>1,505,831</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	<u>(4,568)</u>	<u>(2,558)</u>
Net cash (used in) investing activities	<u>(4,568)</u>	<u>(2,558)</u>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	<u>(3,236)</u>	<u>(12,941)</u>
Net cash (used in) financing activities	<u>(3,236)</u>	<u>(12,941)</u>
Increase in cash	395,577	1,490,332
Cash, beginning of year	<u>2,505,251</u>	<u>1,014,919</u>
Cash, end of year	<u>\$ 2,900,828</u>	<u>\$ 2,505,251</u>

**See Notes to Financial Statements.**

# KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

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## **NOTE 1. ORGANIZATION**

Kennesaw State University Research and Service Foundation, Inc. (the "Foundation") was established and incorporated as a non-profit organization in the state of Georgia in August 2005 to contribute to the educational, research and service functions of Kennesaw State University (the "University"). The Foundation secures gifts, contributions and grants from individuals, private organizations and public agencies and obtains contracts with such individuals or entities for the performance of sponsored research, development, education, or other programs by the various colleges, schools, departments or other units of the University. All research grants awarded to the Foundation are subcontracted to the University. At June 30, 2016 and 2015 there was \$3,105,987 and \$1,837,738, respectively, due to the University related to research grants awarded. The amounts are included in accounts payable on the statements of financial position.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

The Foundation presents its financial statements in accordance with Financial Accounting Standards Board (FASB) ASC, *Financial Statements of Not-for-Profit Organizations*. Under this standard, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Foundation does not have any permanently restricted net assets as of June 30, 2016 and 2015.

Unrestricted net assets include amounts that are not subject to donor-imposed stipulations, which are used to account for resources available to carry out the purposes of the Foundation. The principal sources of unrestricted funds are grants and contributions.

Temporarily restricted net assets are those resources currently available to use, but expendable only for purposes specified by the donor or grantor. Such resources originate from grants and contributions restricted for specific purposes. When a donor or grantor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### **Cash Concentration**

The Foundation maintains cash balances at a high quality financial institution. Cash balances are insured by the FDIC for up to \$250,000. Cash balances often exceed the FDIC insurance limit; however, management does not believe it is exposed to significant credit risk on its account.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Contributions

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in unrestricted, temporarily restricted or permanently restricted net assets depending on the nature of the restrictions, or absence thereof.

#### Revenue Recognition

Revenue from research and service agreements is recognized based on the portion of work completed. Revenue from reimbursement basis grants is recognized as expenditures are made.

#### Grants Receivable

Grants receivable represents amounts due to the Foundation for research and service from various funding sources. An allowance for uncollectible receivables is provided based on management's evaluation of potential uncollectible amounts at year end. Management did not consider any amounts to be uncollectible at June 30, 2016 and 2015.

#### Deferred Revenue

Deferred revenue represents funds received from reimbursement basis grants and research and service agreements prior to the Foundation incurring related reimbursable costs.

#### Donated Salaries

Donated salaries are reflected as revenues and other support in the accompanying statements of activities at their estimated values at the date of receipt. Donated salaries represent salaries and wages paid by the University on behalf of the Foundation. Donated salaries totaled \$286,372 and \$206,053 for the years ended June 30, 2016 and 2015, respectively.

#### Software

Software is stated at cost less accumulated amortization. Amortization expense was \$- and \$529 for the years ended June 30, 2016 and 2015, respectively and is computed using the straight-line method over the estimated useful life of 3 years.

#### Fair Value of Financial Instruments

At June 30, 2016 and 2015, the carrying value of financial instruments such as cash, grants receivable, and accounts payable approximated their fair values due to the short-term maturity of these financial instruments.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Income Tax**

The Foundation is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is classified as an organization which is not a private foundation under Section 509(a) of the U.S. Internal Revenue Code.

The Foundation accounts for uncertain tax positions in accordance with accounting standards that provide guidance on when uncertain tax positions are recognized in an entity's financial statements and how the values of these positions are determined. No liability has been recorded as of June 30, 2016 and 2015 due to uncertain tax positions.

#### **Functional Allocation of Expenses**

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **NOTE 3. LONG-TERM DEBT**

The Foundation received an uncollateralized zero interest term loan from a related party, Kennesaw State University Foundation, during the year ended June 30, 2011. The loan was payable in quarterly principal installments of \$3,236 and matured on September 30, 2015.

### **NOTE 4. FAIR VALUE MEASUREMENTS**

GAAP has established a framework for measuring fair value that provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

*Investments in Georgia Fund 1* – Valued at the net asset value of shares held by the Foundation at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of the Foundation's investment assets at June 30, 2016 and 2015, by asset class are as follows:

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Georgia Fund 1				
Repurchase agreements	\$ -	\$ 539,425	\$ -	\$ 539,425
Certificates of deposit	-	471,997	-	471,997
Agency securities	-	606,854	-	606,854
Commercial paper	-	67,428	-	67,428
	\$ -	\$ 1,685,704	\$ -	\$ 1,685,704

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

	Investments at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Georgia Fund 1				
Repurchase agreements	\$ -	\$ 420,284	\$ -	\$ 420,284
Certificates of deposit	-	622,020	-	622,020
Agency securities	-	504,341	-	504,341
Commercial paper	-	134,491	-	134,491
	\$ -	\$ 1,681,136	\$ -	\$ 1,681,136

### NOTE 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are contributions received to support the research of specified scientific investigators. These amounts result from contributions from granting agencies and other institutions which provide support.

At June 30, 2016 and 2015, temporarily restricted net assets were available for the following:

	2016	2015
Research agreements	\$ 500,616	\$ 386,274

Temporarily restricted net assets consist of cash at June 30, 2016 and 2015.

### NOTE 6. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions during the years ended June 30, 2016 and 2015 by incurring expenses satisfying the restricted purpose of research & service as specified by donors and grantors. Net assets released from restrictions totaled \$653,853 and \$710,868 for the years ended June 30, 2016 and 2015, respectively.

### NOTE 7. COMMITMENTS

Grants often require fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although the return of funds is a possibility, the Foundation deems the contingency unlikely as the Foundation has implicitly agreed to comply with the provisions of each grant received.

### NOTE 8. SUBSEQUENT EVENTS

Management has evaluated events occurring through March 28, 2017, the date the financial statements were available to be issued.

## **SUPPLEMENTAL INFORMATION**



**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE FOUNDATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Federal CFDA #</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<i>Research and Development Cluster</i>				
<b>Department of Defense</b>				
Passthrough: University of Texas San Antonio Basic and Applied Scientific Research	12.300	326020115H	\$ 13,132	\$ 13,132
Air Force Defense Research Sciences Program	12.800		116,497	116,497
<b>Total Department of Defense</b>			<b>129,629</b>	<b>129,629</b>
<b>National Aeronautics and Space Administration</b>				
Passthrough: Georgia Institute of Technology Science	43.000	RB130-G10	1,408	1,408
Education	43.008	RF964-G8	11,270	11,270
<b>Total National Aeronautics and Space Administration</b>			<b>12,678</b>	<b>12,678</b>
<b>National Science Foundation</b>				
Mathematical and Physical Sciences	47.049		140,717	140,717
Passthrough: Georgia Institute of Technology Mathematical and Physical Sciences	47.049	RG173-G3	33,428	33,428
Computer and Information Science and Engineering	47.070	RB011-G10	68,360	68,360
Biological Sciences	47.074		176,839	176,839
Education and Human Resources	47.076		1,284,676	1,284,676
Passthrough: University of Tennessee Chattanooga Education and Human Resources	47.076	A13-0147-S001	12,952	12,952
Passthrough: University of Georgia  Education and Human Resources	47.076	RR740-010/4945266 , RR740-010/S000899, RR740-010/S000898	93,166	93,166
Passthrough: Morgan State University Polar Programs	47.078	0416-CS-PB-KSU	9,355	9,355
<b>Total National Science Foundation</b>			<b>1,819,493</b>	<b>1,819,493</b>
<b>Department of Health and Human Services - National Institutes of Health</b>				
Biomedical Research and Research Training	93.859		234,274	234,274
Passthrough: Michigan State University Biomedical Research and Research Training	93.859	RC104888KS	4,616	4,616
Passthrough: Rush University Medical Center Biomedical Research and Research Training	93.859	5R01GM102336	56,286	56,286
Aging Research	93.866		63,883	63,883
<b>Total Department of Health and Human Services - National Institutes of Health</b>			<b>359,059</b>	<b>359,059</b>
<b>Department of Transportation</b>				
Passthrough: Georgia Department of Transportation Highway Research and Development Program	20.200	Task Order 2015-01/RP 14-29	26,060	26,060
<b>Total Department of Transportation</b>			<b>26,060</b>	<b>26,060</b>
<i>Total Research and Development Cluster</i>			<i>2,346,919</i>	<i>2,346,919</i>
<i>Student Financial Assistance Programs Cluster</i>				
<b>Department of Health and Human Services</b>				
Nurse Faculty Loan Program	93.264		113,374	113,374
<b>Total Department of Health and Human Services</b>			<b>113,374</b>	<b>113,374</b>
<i>Total Student Financial Assistance Programs Cluster</i>			<i>113,374</i>	<i>113,374</i>

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE FOUNDATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Federal CFDA #</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<i>Highway Safety Cluster</i>				
<b>Department of Transportation</b>				
Passthrough: Governor's Office of Highway Safety				
State and Community Highway Safety	20.600	YA-2015-000-00221	5,413	5,413
National Priority Safety Programs	20.616	YA-2016-000-00285	8,402	8,402
<b>Total Department of Transportation</b>			<b>13,815</b>	<b>13,815</b>
<i>Total Highway Safety Cluster</i>			<i>13,815</i>	<i>13,815</i>
<b>Department of Education</b>				
Fund for the Improvement of Postsecondary Education	84.116F		531,701	531,701
Passthrough: Georgia Department of Education				
Mathematics and Science Partnerships	84.366	S366B150011	560,250	560,250
Passthrough: University of Georgia				
Improving Teacher Quality State Grants	84.367B	3525001014, RH216-	63,202	63,202
Passthrough: Southern Polytechnic State Applied Research Corporation				
Race to the Top	84.395	SPARC-KSURSF2015-001	13,235	13,235
<b>Total Department of Education</b>			<b>1,168,388</b>	<b>1,168,388</b>
<b>Department of the Interior</b>				
Passthrough: University of West Georgia				
National Land Remote Sensing Education Outreach and Research	15.815	1102542016/9KSU	1,124	1,124
<b>Total Department of the Interior</b>			<b>1,124</b>	<b>1,124</b>
<b>Department of State</b>				
Programs	19.009		223,654	223,654
Public Diplomacy Programs	19.040		13,423	13,423
Passthrough: Institute of International Education				
Academic Exchange Programs- Graduate Students	19.400	S-ECAGD-15-CA-1015	46,938	46,938
Public Diplomacy Programs for Afghanistan and Pakistan	19.501	N/A	331,844	331,844
<b>Total Department of State</b>			<b>615,859</b>	<b>615,859</b>
<b>National Endowment for the Arts</b>				
Promotion of the Arts Grants to Organizations and Individuals	45.024		5,384	5,384
<b>Total National Endowment for the Arts</b>			<b>5,384</b>	<b>5,384</b>
<b>National Endowment for the Humanities</b>				
Promotion of the Humanities Professional Development	45.163		6,903	6,903
<b>Total National Endowment for the Humanities</b>			<b>6,903</b>	<b>6,903</b>
<b>Nuclear Regulatory Commission</b>				
US Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		81,987	81,987
<b>Total Nuclear Regulatory Commission</b>			<b>81,987</b>	<b>81,987</b>
<b>Department of Homeland Security</b>				
Passthrough: Georgia Emergency Management Agency				
Cyber Tipline	97.067	EMW-2015-SS-00065-S01	1,915	1,915
<b>Total Department of Homeland Security</b>			<b>1,915</b>	<b>1,915</b>
			<b>\$ 4,355,668</b>	<b>\$ 4,355,668</b>

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kennesaw State University Research and Service Foundation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Foundation has elected not to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

**NOTE 3. SUBRECIPIENT**

Substantially all federal expenditures identified in Kennesaw State University Research and Service Foundation, Inc.'s Schedule of Expenditures of Federal Awards were sub-awarded to Kennesaw State University.



**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**

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**To the Board of Directors  
Kennesaw State University Research and Service Foundation, Inc.  
Kennesaw, Georgia**

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 Kennesaw State University Research and Service Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related 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 March 28, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Kennesaw State University Research and Service Foundation, Inc.'s 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 Kennesaw State University Research and Service Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

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**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlanta, Georgia  
March 28, 2017



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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To the Board of Directors  
Kennesaw State University Research and Service Foundation, Inc.  
Kennesaw, Georgia

### Report on Compliance for Each Major Federal Program

We have audited Kennesaw State University Research and Service Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kennesaw State University Research and Service Foundation, Inc.'s major federal programs for the year ended June 30, 2016. Kennesaw State University Research and Service Foundation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Kennesaw State University Research and Service Foundation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kennesaw State University Research and Service Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kennesaw State University Research and Service Foundation, Inc.'s compliance.

### *Opinion on Each Major Federal Program*

In our opinion, Kennesaw State University Research and Service Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

Kennesaw State University Research and Service Foundation, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kennesaw State University Research and Service Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Kennesaw State University Research and Service Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kennesaw State University Research and Service Foundation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kennesaw State University Research and Service Foundation, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

Kennesaw State University Research and Service Foundation, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kennesaw State University Research and Service Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Atlanta, Georgia  
March 28, 2017

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:**

**Financial Statements:**

Type of auditors' report issued

Unmodified

Yes

No

Internal control over financial reporting:

Material weaknesses identified?

X

Significant deficiencies identified not considered to be material weaknesses?

None  
Reported

Noncompliance material to the financial statements noted?

X

**Federal Awards:**

Internal controls over major programs:

Material weaknesses identified?

X

Significant deficiencies identified not considered to be material weaknesses?

X

Type of auditors' report issued on compliance for major programs

Unmodified

Audit findings required to be reported in accordance with 2 CFR section 200.516(a)?

X

**Identification of major programs:**

Research & Development Cluster                      12.300, 12.800, 20.200,  
43.000, 43.008, 47.049,  
47.070, 47.074, 47.076,  
47.078, 93.859, 93.866

Department of State –  
Public Diplomacy Programs for  
Afghanistan and Pakistan                      19.501

Dollar threshold used to distinguish between  
Type A and Type B programs

\$ 750,000

Yes

No

Auditee qualified as low-risk auditee?

X

Financial statement findings?

X

Federal award findings questioned costs?

X



**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**YEAR ENDED JUNE 30, 2016**

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**II. FINANCIAL STATEMENT FINDINGS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**2016-001. Salary reimbursement requests were submitted to two separate grants for the same individual.**

*Federal Program Information:* CFDA #19.501, Public Diplomacy Programs for Afghanistan and Pakistan,  
Department of State, Fiscal Year 2016

*Condition:* The principal investigator's full salary for the periods October through November 2015 was included in reimbursement requests submitted to the Department of State under two separate awards.

*Criteria:* Internal controls should be in place to ensure the Foundation does not request federal reimbursements in excess of salaries paid to employees, prior to the submission of the requests.

*Effect:* The Foundation detected the errors following the submissions of the reimbursement requests, and corrected them by reducing the amounts requested on subsequent filings.

*Recommendation:* Foundation staff should review the allocation of salaries across all awards, to ensure employees are not submitting requests in excess of their salaries.

*Response:* Expenses on the grant are incurred by Kennesaw State University which invoices the Foundation. At the time of the questioned cost, the University was in the first months of a financial consolidation with a neighboring university and the salary error was due to this consolidation. We concur with the recommendation and a procedure was implemented following the initial detection of the error. (Resolved)

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
YEAR ENDED JUNE 30, 2016**

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**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**2016-002. Indirect costs were not calculated in line with the grant agreements.**

*Federal Program Information:* CFDA #19.501, Public Diplomacy Programs for Afghanistan and Pakistan,  
Department of State, Fiscal Year 2016

**Condition:** The original award agreements, signed by Southern Polytechnic Research Corporation (“SPARC”), called for indirect cost allocations based on reimbursable salaries. Following the novation to transfer the awards to Kennesaw State University Research and Service Foundation, Inc. the indirect costs were calculated based on The Foundation’s federally negotiated rate based on modified total direct cost rather than the rate approved in the respective agreements. Per management, a representative of the agency provided verbal guidance to use the Foundation’s rate.

**Criteria:** The Foundation’s federally negotiated indirect cost rate should only be applied to awards that do not define overriding calculation rates, and the Foundation should retain supporting documentation to substantiate modifications to written agreements that define overriding calculation rates.

**Effect:** Indirect costs included in the Foundation’s requests for reimbursement were based on verbal communications from an agency representative and were not substantiated by formal modification to the written agreement.

**Recommendation:** Foundation staff should obtain and retain supporting documentation of approved modifications to indirect cost rate calculations.

**Response:** The award was transferred from a neighboring research foundation (SPARC) due to a consolidation effort. Prior to receiving the transferred award, we discussed with the grant officer whether to use SPARC’s indirect cost rate or the Foundation’s indirect cost rate and were advised to use the Foundation’s rate. Quarterly invoices explicitly included the Foundation’s indirect cost rate and were paid. The Foundation’s request for reimbursement did not exceed those owed by the agency, but we do agree that we should have received written confirmation from the agency to use the Foundation’s rate. We will ensure that we have written confirmation of the indirect cost rate to use for all awards. (Resolved)

**KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE  
FOUNDATION, INC.**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

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**II. FINANCIAL STATEMENT FINDINGS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE