

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

**FINANCIAL REPORT**

**JUNE 30, 2017**

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

**FINANCIAL REPORT  
JUNE 30, 2017**

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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**

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, 2017 and 2016, 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. 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.

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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, 2017 and 2016, 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.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
September 1, 2017

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

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

<u>Assets</u>	<u>2017</u>	<u>2016</u>
<b>Current assets</b>		
Cash	\$ 3,224,225	\$ 2,900,828
Investments	1,695,299	1,685,704
Grants receivable, net	2,196,398	2,375,743
Project advances	8,580	82,622
<b>Total current assets</b>	<b>7,124,502</b>	<b>7,044,897</b>
<b>Total assets</b>	<b>\$ 7,124,502</b>	<b>\$ 7,044,897</b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 3,254,335	\$ 3,327,480
Deferred revenue	1,158,187	1,211,083
<b>Total current liabilities</b>	<b>4,412,522</b>	<b>4,538,563</b>
<b>Total liabilities</b>	<b>4,412,522</b>	<b>4,538,563</b>
<b>Net assets</b>		
Unrestricted	2,164,069	2,005,718
Temporarily restricted	547,911	500,616
<b>Total net assets</b>	<b>2,711,980</b>	<b>2,506,334</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,124,502</b>	<b>\$ 7,044,897</b>

See Notes to Financial Statements.

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

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support</b>			
Contributions	\$ 10,889	\$ 319,083	\$ 329,972
Grants	6,361,119	275,845	6,636,964
Program service revenue	1,490,157	-	1,490,157
Royalties	65,111	-	65,111
Donated salaries	332,213	-	332,213
Interest income	22,307	-	22,307
Other income	47,123	-	47,123
Net assets released from restrictions	547,633	(547,633)	-
<b>Total revenues and other support</b>	<b>8,876,552</b>	<b>47,295</b>	<b>8,923,847</b>
<b>Expenses</b>			
Research grants and contracts	8,121,294	-	8,121,294
Development of intellectual property	264,951	-	264,951
Management and general	331,956	-	331,956
<b>Total expenses</b>	<b>8,718,201</b>	<b>-</b>	<b>8,718,201</b>
Change in net assets	158,351	47,295	205,646
Net assets, beginning of year	2,005,718	500,616	2,506,334
Net assets, end of year	<u>\$ 2,164,069</u>	<u>\$ 547,911</u>	<u>\$ 2,711,980</u>

**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	6,317,077	125,007	6,442,084
Program service revenue	2,309,385	-	2,309,385
Royalties	45,542	-	45,542
Donated salaries	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>9,711,530</b>	<b>114,342</b>	<b>9,825,872</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	190,698	-	190,698
<b>Total expenses</b>	<b>9,237,523</b>	<b>-</b>	<b>9,237,523</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 FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017**

	<u>Program Services</u>			<u>Total</u>
	<u>Research Grants and Contracts</u>	<u>Development of Intellectual Property</u>	<u>Management and General</u>	
<b>Expenses</b>				
Advertising	\$ 479	\$ -	\$ -	\$ 479
Bank fees	15,197	-	10,962	26,159
Consultants/Honorariums	753,472	-	-	753,472
Dues and subscriptions	30,191	82	1,695	31,968
Gifts and contributions	23,145	-	303	23,448
Management fee	38,979	-	-	38,979
Insurance	8,012	-	3,266	11,278
Testing fees	100,878	-	-	100,878
Legal and accounting	3,714	126,915	24,380	155,009
Licenses and permits	25,953	-	-	25,953
Materials and supplies	39,162	-	1,088	40,250
Meals and entertainment	186,200	-	3,585	189,785
Miscellaneous	974	-	1,282	2,256
Postage	14,670	-	-	14,670
Printing	35,390	-	-	35,390
Registration fees	26,961	-	14,110	41,071
Rent	40,180	2,550	-	42,730
Grants and contracts subcontracted to KSU	6,340,578	-	-	6,340,578
Donated salaries	105,314	135,404	91,495	332,213
Scholarships	1,000	-	-	1,000
Sponsorships	25,150	-	6,000	31,150
Stipends	30,941	-	-	30,941
Telephone	2,276	-	-	2,276
Travel	236,690	-	2,447	239,137
Utilities	289	-	-	289
Royalties	35,499	-	-	35,499
Bad debt expense	-	-	171,343	171,343
<b>Total expenses</b>	<b>\$ 8,121,294</b>	<b>\$ 264,951</b>	<b>\$ 331,956</b>	<b>\$ 8,718,201</b>

**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 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
Testing fees	102,157	-	-	102,157
Legal and accounting	3,102	132,581	20,502	156,185
Licenses and permits	22,829	-	366	23,195
Materials and supplies	64,819	77	1,803	66,699
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
Bad debt expense	-	-	24,000	24,000
<b>Total expenses</b>	<u>\$ 8,804,368</u>	<u>\$ 242,457</u>	<u>\$ 190,698</u>	<u>\$ 9,237,523</u>

**See Notes to Financial Statements.**

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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 205,646	\$ 588,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net change in:		
Grants receivable	179,345	(895,368)
Project advances	74,042	35,574
Accounts payable	(73,145)	1,263,499
Deferred revenue	(52,896)	(588,673)
Net cash provided by operating activities	<u>332,992</u>	<u>403,381</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments and reinvested earnings	<u>(9,595)</u>	<u>(4,568)</u>
Net cash (used in) investing activities	<u>(9,595)</u>	<u>(4,568)</u>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	<u>-</u>	<u>(3,236)</u>
Net cash (used in) financing activities	<u>-</u>	<u>(3,236)</u>
Increase in cash	323,397	395,577
Cash, beginning of year	<u>2,900,828</u>	<u>2,505,251</u>
Cash, end of year	<u><u>\$ 3,224,225</u></u>	<u><u>\$ 2,900,828</u></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, 2017 and 2016 there was \$3,161,092 and \$3,105,987, 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, 2017 and 2016.

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. As of June 30, 2017 and 2016, the allowance for uncollectible receivables was \$195,343 and \$24,000, respectively.

#### 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 \$332,213 and \$286,372 for the years ended June 30, 2017 and 2016, respectively.

#### Fair Value of Financial Instruments

At June 30, 2017 and 2016, 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, 2017 and 2016 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.

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.

## NOTES TO FINANCIAL STATEMENTS

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

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, 2017 and 2016, by asset class are as follows:

	Investments at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Georgia Fund 1				
Repurchase agreements	\$ -	\$ 491,637	\$ -	\$ 491,637
Certificates of deposit	-	627,261	-	627,261
Agency securities	-	389,919	-	389,919
Government bonds	-	186,482	-	186,482
	\$ -	\$ 1,695,299	\$ -	\$ 1,695,299

	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 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, 2017 and 2016, temporarily restricted net assets were available for the following:

	<u>2017</u>	<u>2016</u>
Research agreements	<u>\$ 547,911</u>	<u>\$ 500,616</u>

Temporarily restricted net assets consist of cash at June 30, 2017 and 2016.

### NOTE 6. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the restricted purpose of research and service as specified by donors and grantors. Net assets released from restrictions totaled \$547,633 and \$653,853 for the years ended June 30, 2017 and 2016, 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. CONTINGENCIES

The Foundation is working with a federal agency to review grant expenditures concerning potentially unallowable or unsupported costs. The expenditures under review relate to grants that were awarded to the University prior to the inception of the Foundation, and to grants that were awarded to Southern Polytechnic Applied Research Corporation prior to its acquisition by the Foundation.

Management and its counsel estimate the value of maximum potential repayment to be approximately \$1,600,000. The Foundation asserts that all costs were allowed and supported, and that repayment of the expenditures is not required. The final outcome could not be determined as of the date of this financial report.

### NOTE 9. SUBSEQUENT EVENTS

Management has evaluated events occurring through September 1, 2017, the date the financial statements were available to be issued.