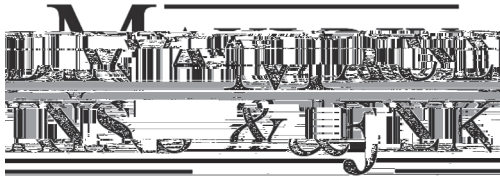


KENNESAW STATE UNIVERSITY
RESEARCH AND SERVICE
FOUNDATION, INC.

KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE
FOUNDATION, INC.

FINANCIAL REPORT
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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, 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 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, 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.

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 10, 2018, 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.

A rectangular area containing a signature that has been redacted with a solid black box.

Atlanta, Georgia
March 10, 2018

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

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

Revenues and other support

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)	-
Total revenues and other support	8,876,552	47,295	8,923,847

Expenses

Research grants and contracts	8,121,294	-	8,121,294
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**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>
Revenues and other support			
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)	-
Total revenues and other support	9,711,530	114,342	9,825,872
Expenses			
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
Total expenses	9,237,523	-	9,237,523
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.

Expenses

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

**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>	
Expenses				
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
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
Total expenses	<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>
OPERATING ACTIVITIES		
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>
INVESTING ACTIVITIES		
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>
FINANCING ACTIVITIES		
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>\$ 3,224,225</u>	<u>\$ 2,900,828</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

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

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; and
- 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

NOTES TO FINANCIAL STATEMENTS

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 March 10, 2018, 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, 2017

	Federal CFDA #	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<i>Research and Development Cluster</i>				
Department of Defense				
Passthrough: University of Texas San Antonio Basic and Applied Scientific Research	12.300	326020115H	\$ 16,779	\$ 16,779
Passthrough: Virginia Polytechnic Institute and State University Basic Scientific Research	12.431	450378-19C57	15,451	15,451
Total Department of Defense			32,230	32,230
National Aeronautics and Space Administration				
Passthrough: Georgia Institute of Technology Education	43.008	RF964-G8	15,387	15,387
Total National Aeronautics and Space Administration			15,387	15,387
National Science Foundation				
Passthrough: Virginia Polytechnic Institute and State University Engineering Grants	47.041	479436-19C57	11,394	11,394
Mathematical and Physical Sciences	47.049		152,508	152,508
Passthrough: Georgia Institute of Technology Mathematical and Physical Sciences	47.049	RG173-G3	39,653	39,653
Computer and Information Science and Engineering	47.070		263,371	263,371
Passthrough: Georgia Institute of Technology Computer and Information Science and Engineering	47.070	RB011-G10	67,878	67,878
Biological Sciences	47.074		166,820	166,820
Education and Human Resources	47.076		1,005,991	1,005,991
Passthrough: University of Georgia Education and Human Resources	47.076	S000898, RR740-019/ S001258, S001257	98,128	98,128
Passthrough: Morgan State University Polar Programs	47.078	0416-CS-PB-KSU	13,580	13,580
Total National Science Foundation			1,819,323	1,819,323
Department of Health and Human Services - National Institutes of Health				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		24,924	24,924
Biomedical Research and Research Training	93.859		359,518	359,518
Passthrough: Michigan State University Biomedical Research and Research Training	93.859	RC104888KS	22,565	22,565
Passthrough: Rush University Medical Center Biomedical Research and Research Training	93.859	5R01GM102336	38,733	38,733
Aging Research	93.866		46,024	46,024
Total Department of Health and Human Services - National Institutes of Health			491,764	491,764
Environmental Protection Agency				
P3 Award: National Student Design Competition for Sustainability	66.516		11,701	11,701
Total Environmental Protection Agency			11,701	11,701
Department of the Interior				
Passthrough: University of West Georgia National Land Remote Sensing, Education Outreach and Research	15.815	1102542017/11KSU, 1102542016/9KSU	2,875	2,875
Total Department of the Interior			2,875	2,875
Department of Education				
Passthrough: Georgia Department of Transportation Highway Research and Development Program	20.200	TO 2015-01/RP 14-29	80,033	80,033
Total Department of Education			80,033	80,033
Department of Transportation				
Passthrough: MDRC Education Research, Development and Dissemination	84.305	N/A	70,298	70,298
Total Department of Transportation			70,298	70,298
<i>Total Research and Development Cluster</i>			<i>2,523,611</i>	<i>2,523,611</i>
<i>Student Financial Assistance Programs Cluster</i>				
Department of Health and Human Services				
Nurse Faculty Loan Program	93.264		80,400	80,400
Total Department of Health and Human Services			80,400	80,400
<i>Total Student Financial Assistance Programs Cluster</i>			<i>80,400</i>	<i>80,400</i>

Highway Safety Cluster

Department of Transportation

Passthrough: Governor's Office of Highway Safety				
State and Community Highway Safety	20.600	YA-2017-402TSP-037	8,644	8,644
National Priority Safety Programs	20.616	YA-2016-000-00285	2,155	2,155
Total Department of Transportation			10,799	10,799
<i>Total Highway Safety Cluster</i>			<i>10,799</i>	<i>10,799</i>

Department of Health and Human Services

Passthrough: Morehouse School of Medicine

KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE FOUNDATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1. BASIS OF PRESENTATION

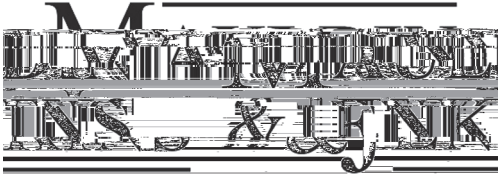
The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kennesaw State University Research and Service Foundation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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**

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, 2017, 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 10, 2018.

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.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR

Report on Internal Control Over Compliance

KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE

KENNESAW STATE UNIVERSITY RESEARCH AND SERVICE
FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2017

II. FINANCIAL STATEMENT FINDINGS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

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

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

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

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.

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

Current Status: The finding does not warrant further action. Management agreed that the Foundation should have received written confirmation from the agency to use the Foundation’s rate, and implemented a policy to ensure that written confirmation of the indirect cost rate to use for all awards is received. (Resolved)