

IUP RESEARCH INSTITUTE
AUDITED FINANCIAL STATEMENTS
AND REPORTS REQUIRED BY UNIFORM GUIDANCE
YEAR ENDED JUNE 30, 2019

Clay & Gascoine LLC
Certified Public Accountants

IUP RESEARCH INSTITUTE

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CLAY & GASCOINE LLC

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Board of Directors
IUP Research Institute
Indiana, Pennsylvania

Independent auditors' report

We have audited the accompanying consolidated financial statements of IUP Research Institute (a not-for-profit corporation), a component unit of Indiana University of Pennsylvania, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IUP Research Institute as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2019 on our consideration of IUP Research Institute'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 the 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 IUP Research Institute's internal control over financial reporting and compliance.

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of IUP Research Institute taken as a whole. The accompanying consolidating schedules (pages 12 and 13) are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards (pages 18 and 19) is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Clay & Gascoine LLC

August 27, 2019

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 1,736,499
Accounts receivable	1,128,862
Prepays and other assets	<u>67,383</u>
Total current assets	<u>2,932,744</u>

Property and equipment

Furniture and equipment	79,467
Less accumulated depreciation	<u>55,739</u>
Net property and equipment	<u>23,728</u>

Other assets

Deferred tax asset	<u>2,270</u>
Total other assets	<u>2,270</u>

Total assets

\$ 2,958,742

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 516,332
Accrued expenses	160,597
Other payables	387,965
Deferred revenue	<u>690,559</u>
Total current liabilities	1,755,453

Long-term liabilities

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Total liabilities

1,755,453

Net assets

Without donor restrictions	<u>1,203,289</u>
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Total liabilities and net assets

\$ 2,958,742

See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

Changes in net assets without donor restrictions

Revenue and other support

Federal grants and contracts	\$ 2,083,663
Other grants and contracts	1,852,466
Other income	20,888
Fees received	1,334,642
Interest income	<u>18,850</u>

Total revenue and other support 5,310,509

Expenses

IUP Program	3,627,115
Institute Program	764,800
BTG Program	389,601
Administration	<u>550,136</u>

Total expenses 5,331,652

Decrease in net assets without donor restrictions before income taxes (21,143)

Income tax expense 992

Decrease in net assets without donor restrictions (22,135)

Net assets at beginning of year 1,225,424

Net assets at end of year \$ 1,203,289

See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>IUP</u> <u>Program</u>	<u>Institute</u> <u>Program</u>	<u>BTG</u> <u>Program</u>	<u>Administration</u>	<u>Total</u>
Expenses					
Salaries and wages	\$ 1,132,623	\$ 416,394	\$ 221,426	\$ 317,066	\$ 2,087,509
Payroll taxes and benefits	333,647	138,456	80,722	108,093	660,918
Rent and utilities	14,853	42,341	22,606	27,070	106,870
Communication	3,519	8,707	6,979	6,442	25,647
Supplies and equipment	600,150	22,946	10,727	14,098	647,921
Travel	195,328	26,236	8,136	14,569	244,269
Printing and duplication	4,754	2,383	-	1,046	8,183
Professional and contracted services	723,907	47,884	23,527	29,849	825,167
Professional development	1,499	14,922	4,927	8,399	29,747
Insurances	780	7,426	3,451	4,554	16,211
Other expenses	223,193	37,105	3,285	17,517	281,100
IUP indirects	191,086	-	-	-	191,086
Fund close out costs	201,776	-	-	-	201,776
Depreciation	-	-	3,815	1,433	5,248
	<u>\$ 3,627,115</u>	<u>\$ 764,800</u>	<u>\$ 389,601</u>	<u>\$ 550,136</u>	<u>\$ 5,331,652</u>
Total expenses					

See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities	
Cash received from grants and fees	\$ 5,514,754
Cash paid to suppliers and employees	(5,330,390)
Other income received	20,888
Interest income received	18,850
Income taxes paid	<u>(21,977)</u>
Net cash provided by (used in) operating activities	<u>202,125</u>
Cash flows from investing activities	
Purchases of equipment	<u>(2,627)</u>
Net cash provided by (used in) investing activities	<u>(2,627)</u>
Cash flows from financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	199,498
Beginning cash and cash equivalents	<u>1,537,001</u>
Ending cash and cash equivalents	<u>\$ 1,736,499</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ (22,135)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities	
Depreciation	5,248
(Increase) decrease in deferred tax asset	(1,560)
(Increase) decrease in accounts receivable	52,288
(Increase) decrease in prepaids and other assets	(25,433)
Increase (decrease) in accounts payable	(86,883)
Increase (decrease) in accrued expenses	16,801
Increase (decrease) in other payables	72,104
Increase (decrease) in deferred revenue	<u>191,695</u>
Net cash provided by (used in) operating activities	<u>\$ 202,125</u>
Noncash financing and investing activities	<u>\$ -</u>

See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. **ORGANIZATION**

IUP Research Institute (the Institute) is a nonprofit corporation which was founded to promote the interests of, operate for the benefit of and support of Indiana University of Pennsylvania (IUP). As such, the Institute is to engage in, foster and support research related to fields of study at IUP and to provide development and administrative services for such research. The Institute is also to disseminate information related to research to the academic community and to the public and to offer programs and services related to the procurement of funding for the actual conduct of its research and development projects.

The Institute operates under an Affiliation Agreement with IUP and, as such, is considered a component unit of IUP.

The Institute established a wholly owned for profit subsidiary called IUP Research Institute Business and Technology Group, Inc. (BTG). The Institute has included BTG financial information by utilizing a consolidating financial statement with eliminations for transactions between the two entities.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting

The accompanying consolidated financial statements of the Institute have been prepared on the accrual basis of accounting which recognizes revenue when earned and expenses when incurred, in accordance with U.S. generally accepted accounting principles.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For the purposes of reporting cash flows, the Institute and BTG considers all short-term debt securities with an original maturity of twelve months or less to be cash equivalents. Cash and cash equivalents include all checking, savings, money market accounts, and certificates of deposit.

Allowance for doubtful accounts

The Institute and BTG will provide for doubtful accounts by the allowance method, if and when management feels such an allowance is necessary. Currently, there are no bad debts or doubtful accounts included in accounts receivable.

Revenue recognition

For grants and contracts, the revenue of each grant or contract matches the expenses for that grant or contract. If expenses for a grant or contract exceed funds received, then a receivable is recorded. If funds received for a grant or contract exceeds expenses for that grant or contract, then a deferred revenue is recorded. For all other types of revenue, revenue is recorded as earned.

Property and equipment

Property and equipment used in the Institute's and BTG's operations will be recorded at cost of purchase or at fair value of donation. The Institute's policy is to capitalize all property and equipment with a cost of \$5,000 or more. BTG's policy is to capitalize all property and equipment with a cost of \$2,500 or more. Depreciation will be provided using the straight-line method over the estimated useful lives of the assets. Significant renewals and betterments will be capitalized. Maintenance and repairs are charged to expenses and losses.

Property and equipment used in the grant projects will be expensed as incurred. The Institute will maintain an inventory of this property and equipment unless IUP or other contracted entities are required to maintain this property and equipment inventory.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net assets with donor restrictions

The Institute reports gifts and donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets. Donor restricted net assets have been limited by donors for a specific time period or purpose. When a donor restriction expires, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Institute does not have any donor restricted net assets as of June 30, 2019.

Income taxes

The Institute is organized under the nonprofit corporation laws of Pennsylvania and under Internal Revenue Code Section 501(c)(3) which exempts the Institute from state and federal income taxes. BTG is a for profit corporation and therefore subject to state and federal income taxes.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes) and compensated absences (deductible for financial statement purposes but not for income tax purposes). The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Uncertain tax positions

The Institute and BTG have adopted FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Institute and BTG will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Institute and BTG evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

The Institute's and BTG's evaluation on June 30, 2019 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2015 through 2017 tax years remain subject to examination by the Internal Revenue Service. The Institute and BTG do not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Advertising expenses

Advertising costs are expensed as incurred. Advertising expense was \$14,346 for the year ended June 30, 2019, of this amount \$13,753 was for the Institute and \$593 was for BTG.

Compensated absences

Employees of the Institute and BTG are entitled to paid vacation days, which may be carried over to future periods if not used currently. The Institute's and BTG's policy is to recognize the cost of these compensated absences in the year which they are earned by the employees. Accordingly, a liability for compensated absences in the amount of \$122,375 has been included with accrued payroll on the consolidated statement of financial position for the year ended June 30, 2019. Of this amount \$91,324 is for the Institute and \$31,051 is for BTG.

Subsequent events

Management has evaluated subsequent events through August 27, 2019, the date the financial statements were available to be issued.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

3. **CONCENTRATION OF CREDIT RISK**

The Institute maintains cash accounts at several financial institutions and BTG maintains cash accounts at one financial institution. The amount of cash deposits at each financial institution insured by the Federal Deposit Insurance Corporation is \$250,000. In the normal course of business, the Institute and BTG may have deposits with one of these financial institutions in excess of federal insurance coverage. At June 30, 2019, cash deposits exceeded the federal insurance coverage by a total of \$469,903. Of this amount, \$358,522 is for the Institute and \$111,381 is for BTG. The Institute also maintains a financial account with Edward Jones Investments. These funds are invested in accounts that are either insured by the FDIC or are guaranteed by U.S. Treasury obligations.

A significant portion of the Institute's contracted services is with IUP as disclosed in Note 9 and a loss of these services could have a materially adverse effect on the Institute's ability to continue its operations and research and development projects.

4. **LONG-TERM DEBT**

The Institute and BTG currently have no long-term debt.

5. **LINE OF CREDIT**

The Institute currently has no line of credit. BTG has a \$100,000 line of credit with a local bank for which the Institute is the guarantor. There were no borrowings on this line of credit for the year ended June 30, 2019.

6. **RETIREMENT PLAN**

The Institute and BTG have a 401(k) profit sharing plan for employees who are at least 21 years of age and who have at least 1,000 hours in a year of service. Eligible employees can contribute up to the maximum allowed by law. The Institute and BTG contribute 10% of each eligible employee's compensation into the retirement plan. The 401(k) expense for the year ended June 30, 2019 was \$90,535 of which \$65,335 was for the Institute and \$25,200 was for BTG.

7. **LEASES**

The Institute and BTG lease facilities for their offices which are currently leased on a month to month basis.

Total office rent expense for the year ended June 30, 2019 was \$79,620 of which \$55,620 was for the Institute's facility and \$24,000 was for BTG's facility.

8. **INCOME TAXES**

Deferred taxes are computed based on the expected tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between financial and tax reporting purposes. The items resulting in the timing differences are accelerated depreciation and compensated absences. The net difference between tax expense and taxes currently payable is reflected in the balance sheets as deferred taxes. Deferred tax benefits and/or liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

8. INCOME TAXES (CONTINUED)

Amounts for deferred tax benefit and liabilities are as follows:

Long-term deferred tax asset	\$2,270
Long-term deferred tax liability	<u>-</u>
Net long-term deferred tax asset (liability)	<u>\$2,270</u>

Summaries of the provisions for income taxes are as follows:

Current income tax expense (benefit)	\$2,552
Deferred tax expense (benefit)	<u>(1,560)</u>
Total provision for income tax expense (benefit)	<u>\$ 992</u>

9. RELATED PARTY

The Institute contracts with IUP to provide services for various research grant projects. These contracted services are in the normal course of business for both the Institute and IUP. For the year ended June 30, 2019, the Institute paid IUP for contracted services in the amount of \$1,427,048. The Institute owed IUP \$392,386 as of June 30, 2019, which is included in accounts payable. IUP pays a fee to the Institute for managing research grants on behalf of IUP and also pays the Institute for other services. For the year ended June 30, 2019, the total amounts paid by IUP to the Institute were \$1,201,151. IUP owed the Institute \$120,000 as of June 30, 2019, which is included in accounts receivable.

10. CONTINGENT LIABILITIES

The Institute receives funding for various federal, state and private research grants, which are subject to grant compliance requirements. The Institute is potentially liable for any expenses or transactions which may be disallowed pursuant to the grant compliance requirements. Management is not aware of any material items of noncompliance, which would result in the disallowance of any costs.

The Institute and BTG did not engage in any risk financing activities during the year ended June 30, 2019.

11. CASH HELD FOR OTHERS

The Institute holds cash for IUP faculty, deans, chairs and centers. This cash is reserved for the use of these individuals or centers. The amount of cash held for others by the Institute at June 30, 2019, was \$387,965 which was included in cash and cash equivalents. The Institute has also recorded an offsetting liability in the same amount included in other payables.

12. SUPPORT OF IUP RESEARCH MISSION

The Institute supports IUP Research Mission. This includes paying for faculty travel and training that will help improve their contacts, professional development, and experience. The Institute also recognizes and rewards principal investigators for successful submissions. For the year ending June 30, 2019, the Institute has spent \$37,349 in this support.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

13. AVAILABLE RESOURCES AND LIQUIDITY

During the year, the Institute depends on cash flows from operations to cover costs. As of June 30, 2019, the following tables show the total financial assets held by the Institute and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end

Cash and cash equivalent	\$1,736,499
Accounts receivable	<u>1,128,862</u>

Total financial assets at year-end \$2,865,361

Financial assets available to meet general expenditures over the next 12 months

Cash and cash equivalent, less cash held for others	\$1,348,534
Accounts receivable	<u>1,128,862</u>

Total financial assets available \$2,477,396

IUP RESEARCH INSTITUTE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	<u>IUP Research Institute</u>	<u>IUP Research Institute Business and Technology Group, Inc.</u>	<u>Adjustments</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,382,239	\$ 354,260	\$ -	\$ 1,736,499
Accounts receivable	1,064,778	64,084	-	1,128,862
Prepays and other assets	<u>37,147</u>	<u>30,236</u>	-	<u>67,383</u>
Total current assets	<u>2,484,164</u>	<u>448,580</u>	-	<u>2,932,744</u>
Property and equipment				
Furniture and equipment	-	79,467	-	79,467
Less accumulated depreciation	<u>-</u>	<u>55,739</u>	-	<u>55,739</u>
Net property and equipment	<u>-</u>	<u>23,728</u>	-	<u>23,728</u>
Other assets				
Deferred tax asset	-	2,270	-	2,270
Investment in subsidiary	<u>423,578</u>	<u>-</u>	<u>(423,578)</u>	<u>-</u>
Total other assets	<u>423,578</u>	<u>2,270</u>	<u>(423,578)</u>	<u>2,270</u>
Total assets	<u>\$ 2,907,742</u>	<u>\$ 474,578</u>	<u>\$ (423,578)</u>	<u>\$ 2,958,742</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 512,135	\$ 4,197	\$ -	\$ 516,332
Accrued expenses	121,994	38,603	-	160,597
Other payables	387,965	-	-	387,965
Deferred revenue	<u>682,359</u>	<u>8,200</u>	-	<u>690,559</u>
Total current liabilities	1,704,453	51,000	-	1,755,453
Long-term liabilities				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	1,704,453	51,000	-	1,755,453
Net assets				
Without donor restrictions	<u>1,203,289</u>	<u>423,578</u>	<u>(423,578)</u>	<u>1,203,289</u>
Total liabilities and net assets	<u>\$ 2,907,742</u>	<u>\$ 474,578</u>	<u>\$ (423,578)</u>	<u>\$ 2,958,742</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	IUP Research Institute	IUP Research Institute Business and Technology Group, Inc.	<u>Adjustments</u>	<u>Total</u>
Change in net assets without donor restrictions				
Revenue and other support				
Federal grants and contracts	\$ 1,669,850	\$ 413,813	\$ -	\$ 2,083,663
Other grants and contracts	1,728,683	123,783	-	1,852,466
Other income	24,138	-	(3,250)	20,888
Fees received	1,457,437	-	(122,795)	1,334,642
Interest income	17,810	1,040	-	18,850
Income from subsidiary	<u>1,742</u>	<u>-</u>	<u>(1,742)</u>	<u>-</u>
Total revenue and other support	<u>4,899,660</u>	<u>538,636</u>	<u>(127,787)</u>	<u>5,310,509</u>
Expenses				
Salaries and wages	1,782,934	304,575	-	2,087,509
Payroll taxes and benefits	549,883	111,035	-	660,918
Rent and utilities	75,775	31,095	-	106,870
Communication	16,048	9,599	-	25,647
Supplies and equipment	633,166	14,755	-	647,921
Travel	233,078	11,191	-	244,269
Printing and duplication	8,183	-	-	8,183
Professional and contracted services	918,850	32,362	(126,045)	825,167
Professional development	22,970	6,777	-	29,747
Insurances	11,465	4,746	-	16,211
Other expenses	276,581	4,519	-	281,100
IUP indirects	191,086	-	-	191,086
Fund close out costs	201,776	-	-	201,776
Depreciation	<u>-</u>	<u>5,248</u>	<u>-</u>	<u>5,248</u>
Total expenses	<u>4,921,795</u>	<u>535,902</u>	<u>(126,045)</u>	<u>5,331,652</u>
Increase (decrease) in net assets without donor restrictions before income taxes	(22,135)	2,734	(1,742)	(21,143)
Income tax expense	<u>-</u>	<u>992</u>	<u>-</u>	<u>992</u>
Increase (decrease) in net assets without donor restrictions	(22,135)	1,742	(1,742)	(22,135)
Net assets at beginning of year	<u>1,225,424</u>	<u>421,836</u>	<u>(421,836)</u>	<u>1,225,424</u>
Net assets at end of year	<u>\$ 1,203,289</u>	<u>\$ 423,578</u>	<u>\$ (423,578)</u>	<u>\$ 1,203,289</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
REPORTS REQUIRED BY UNIFORM GUIDANCE
FOR THE YEAR ENDED JUNE 30, 2019

CLAY & GASCOINE LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
IUP Research Institute
Indiana, Pennsylvania

Independent auditors' 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*

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of IUP Research Institute which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated August 27, 2019.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered IUP Research Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of IUP Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of IUP Research Institute's internal control over financial reporting.

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 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 IUP Research Institute'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clay & Gascoine LLC

August 27, 2019

CLAY & GASCOINE LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
IUP Research Institute
Indiana, Pennsylvania

Independent auditors' report on compliance for each major federal program and on internal control over compliance required by the Uniform Guidance

Report on compliance for each major federal program

We have audited IUP Research Institute'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 IUP Research Institute's major federal programs for the year ended June 30, 2019. IUP Research Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

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

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of IUP Research Institute'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 U.S. generally accepted auditing standards; 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 IUP Research Institute'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 IUP Research Institute's compliance.

Opinion on each major federal program

In our opinion, IUP Research Institute 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, 2019.

Report on internal control over compliance

Management of IUP Research Institute 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 IUP Research Institute'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 IUP Research Institute'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Clay & Gascoine LLC

August 27, 2019

IUP RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal grantor/Pass-through <u>grantor/project title</u>	Contract/Award <u>Number</u>	Federal CFDA <u>Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Assessments of SILVAH for Private Forestlands	NR193A750010C001	10.902	24,632 (1)
Passed through Natural Resources Conservation Services			
Assessing Wildlife Response	68-7482-15-501	10.902	9 (1)
CEAP Assessing Wildlife Resonse	68-3A75-17-337	10.902	143,659 (1)
Passed through Louisiana State University			
Mitigating Drought Stress of Midrotation Pine	2018-67014-27507	10.310	26,888 (1)
Passed through Pheasants Forever			
Decision Support Tool for Managing Working Forests	69-3A75-17-438	10.912	77,068 (1)
Passed through National Fish and Wildlife Foundation			
Improving Forest Health on Private Lands	68-3A75-17-262	10.912	173,196 (1)
Passed through American Bird Conservancy			
Restoring Dynamic Forest Structure for Priority Birds	17-CA-11132422-109	10.683	18,204 (1)
Program for Bog Turtle and GWW	2004-14-044928	10.902	9,957 (1)
			<u>473,613</u>
U.S. Fish and Wildlife Services			
Passed through American Bird Conservancy			
Forestry Technical Assistance	16CA1113242213	10.683	39,710 (1)
Restoring Dynamic Forest Structure	0403.17.057061	10.683	4,024 (1)
PA Wilds Seasonal Forester	17CA11132422109	10.683	49,325 (1)
			<u>93,059</u>
National Sercurity Agency			
Gen Cyber Combo Camp 1718	H98230-18-1-0281	12.903	29,782
Gen Cyber Camp-Summer 2019	H98230-19-1-0107	12.903	60,147
			<u>89,929</u>
Department of the Army			
Assessment of Challenges with Riparian Vegetation	W912HZ-17-2.0026	12.630	18,844 (1)
U.S. Department of Interior			
Passed through CESU			
Fort Necessity	P11AC30805	15.945	23,896 (1)
National Science Foundation			
Biostratigraphic Utility	1325333	47.050	5,516 (1)
What Biases Expert Opinions	1754049	47.075	103,578 (1)
NSF Teaching and Assessing Teamwork	1625429	47.076	46,289 (1)
Scanning Electron Microscope	FAIN 1848414	47.050	359,856 (1)
Building an Inclusive Geology Field Camp		47.050	23,950 (1)
Passed through Case Western Reserve University			
NSF-Inst Dev Excellence	1464133	47.076	19,000 (1)
Passed through Rutgers University			
IUSE Geopaths Extra	1701013	47.050	29,384 (1)
Passed through Columbia University			
Science Support Salary	OCE-1450528	47.050	42,390 (1)
			<u>629,963</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal grantor/Pass-through grantor/project title</u>	<u>Contract/Award Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Environmental Protection Agency Passed through Pennsylvania State University Dissolved Methane in Local Streams	96352201	66.951	<u>3,129</u> (1)
U.S. Department of Energy Passed through University of Texas at Austin Phase Transitions in Mesoscopic Systems	DE-SC0013599	81.049	<u>82,518</u> (1)
National Institute for Occupational Safety and Health Passed through the Center for Construction Research & Training Small Study Program	U60-OH009762	93.262	<u>30,879</u> (1)
NASA Passed through University of Maryland Managing Forests	NNX17AG41G	93.558	<u>6,794</u> (1)
U.S. Department of Health and Human Services Passed through AIC Drug-Alcohol Commission AICDAC Needs Assessment		93.788	<u>10,000</u>
Appalachian Regional Commission Passed through East Tennessee State University Appalachian Teaching Project for FY 1819	CO-12600-F-C-16-18	23.011	<u>4,131</u>
U.S. State Department Fulbright/DAI 2018-2019	S-ECAGD-18-CA-1002	19.408	<u>203,256</u>
Total federal awards			<u>\$ 1,670,011</u>

(1) Denotes a research grant included in the research and development cluster totalling \$1,362,695

Total expenditures for CFDA Number 10.902	<u>\$ 178,257</u>
Total expenditures for CFDA Number 10.912	<u>\$ 250,264</u>
Total expenditures for CFDA Number 10.683	<u>\$ 111,263</u>
Total expenditures for CFDA Number 47.050	<u>\$ 461,096</u>
Total expenditures for CFDA Number 47.076	<u>\$ 65,289</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

1. **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of IUP Research Institute under programs of the federal government for the year ended June 30, 2019. The Information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of IUP Research Institute, it is not intended to and does not present the financial position, changes in net assets, or cash flows of IUP Research Institute.

2. **BASIS OF ACCOUNTING**

The expenditures reported on the accompanying schedule of expenditures of federal awards have been recorded on the accrual basis of accounting which recognizes expenditures when incurred, in accordance with U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

3. **DEMINIMIS INDIRECT COST RATE**

IUP Research Institute as elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. **SUBRECIPIENTS**

The Institute provided the following funding passed through to subrecipients from the federal awards included on the schedule of expenditures of federal awards.

Program: CEAP Assessing Wildlife Response 68-3A75-17-337 \$3,933
Decision Support Tool for Managing Working Forests 69-3A75-17-38 \$13,538
Assessments of SILVAH for Private Forest Lands NR193A750010C001 \$22,250

IUP RESEARCH INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Summary of the auditors' results

1. The type of report the auditors issued on the consolidated financial statements was an unmodified opinion.
2. No reportable conditions in the internal control were disclosed by the audit of the basic consolidated financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No reportable conditions in internal control over major federal programs were disclosed by the audit.
5. The auditors' report on compliance for major federal programs was an unmodified opinion.
6. The audit did not disclose any audit findings required to be reported in accordance with the Uniform Guidance.
7. The major federal programs as part of the Research and Development cluster were:
 - Assessments of SILVAH for Private Forestlands, CFDA No. 10.902
 - Restoring Dynamic Forest Structure for Priority Birds, CFDA No 10.683
 - Forestry Technical Assistance, CFDA No. 10.683
 - Restoring Dynamic Forest Structure, CFDA No. 10.683
 - PA Wilds Seasonal Forester, CFDA No. 10.683
 - CEAP Assessing Wildlife Response, CFDA No. 10.902
 - Assessing Wildlife Response, CFDA No. 10.902
 - Mitigating Drought Stress of Midrotation Pine, CFDA No. 10.310
 - Programs for Bog Turtle & GWW, CFDA No. 10.902
 - Assessment of Challenges with Riparian Vegetation, CFDA No. 12.630
 - Decision Support Tool for Managing Working Forests, CFDA No. 10.912
 - Improving Forest Health on Private Lands, CFDA No. 10.912
 - Biostratigraphic Utility, CFDA No. 47.050
 - Phase Transitions in Mesoscopic Systems, CFDA No. 81.049
 - Fort Necessity, CFDA No. 15.945
 - What Biases Expert Opinions, CFDA No 47.075
 - Scanning Electron Microscope, CFDA No. 47.050
 - Building an Inclusive Geology Field Camp, CFDA No. 47.050
 - Science Support Salary, CFDA No. 47.050
 - NSF-Inst Dev Excellence, CFDA No. 47.076
 - IUSE Geopaths Extra, CFDA No. 47.050
 - NSF Teaching and Assessing Teamwork, CFDA No. 47076
 - Dissolved Methane in Local Streams, CFDA No. 66.951
 - Small Study Program, CFDA No. 93.262
 - Managing Forests, CFDA No. 93.558
8. The dollar threshold used to distinguish between Type A and Type B programs is \$750,000.
9. IUP Research Institute was considered a low-risk auditee.

Findings Relating to the Financial Statements Required to be Reported in Accordance with Government Auditing Standards

Compliance Findings – None
Internal Control Findings – None

Findings and Questioned Costs for Federal Awards in Accordance with the Uniform Guidance

Compliance Findings and Questioned Costs – None
Internal Control Findings – None

IUP RESEARCH INSTITUTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

Compliance Findings

There were no prior audit compliance findings.

Internal Control Findings

There were no prior audit internal control findings.