

IUP RESEARCH INSTITUTE  
AUDITED FINANCIAL STATEMENTS  
AND REPORTS REQUIRED BY OMB CIRCULAR A-133  
YEAR ENDED JUNE 30, 2013

**Clay & Gascoine LLC**  
Certified Public Accountants

## IUP RESEARCH INSTITUTE

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Board of Directors  
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## **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, 2013, and the related consolidated statements of activities and changes in net assets 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. 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, 2013, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013 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* and should be considered in assessing the results of our audit.

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 10 and 11) 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 16 and 17) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 29, 2013

**IUP RESEARCH INSTITUTE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2013**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 1,288,955
Accounts receivable	794,605
Prepays and other assets	<u>46,708</u>
Total current assets	<u>2,130,268</u>

**Property and equipment**

Furniture and equipment	68,874
Less accumulated depreciation	<u>43,154</u>
Net property and equipment	<u>25,720</u>

**Total assets** **\$ 2,155,988**

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 350,295
Accrued payroll and taxes	131,385
Accrued income taxes	14,439
Other payables	376,322
Deferred revenue	<u>486,396</u>
Total current liabilities	<u>1,358,837</u>

**Long-term liabilities**

Deferred income taxes	<u>5,600</u>
Total long-term liabilities	<u>5,600</u>

**Total liabilities** **1,364,437**

**Net assets**

Unrestricted	<u>791,551</u>
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**Total liabilities and net assets** **\$ 2,155,988**

See notes to consolidated financial statements.

**IUP RESEARCH INSTITUTE**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<b>Revenue and other support</b>	
Federal grants and contracts	\$ 2,021,433
Other grants and contracts	1,555,909
Other income	53,038
Fees received	955,814
Interest income	<u>5,295</u>
Total revenue and other support	<u>4,591,489</u>
<b>Expenses</b>	
Salaries and wages	1,106,896
Payroll taxes and benefits	396,598
Contracted salaries and benefits	488,512
Rent and utilities	114,596
Communication	20,260
Supplies and equipment	919,379
Travel	199,941
Printing and duplication	20,535
Professional and contracted services	424,247
Other expenses	539,970
Indirect costs	34,553
Depreciation	<u>23,753</u>
Total expenses	<u>4,289,240</u>
Increase (decrease) in unrestricted net assets before income taxes	302,249
Income tax expense (benefit)	<u>106,039</u>
<b>Increase (decrease) in unrestricted net assets</b>	196,210
Net assets at beginning of year	<u>595,341</u>
<b>Net assets at end of year</b>	<u>\$ 791,551</u>

See notes to consolidated financial statements.

**IUP RESEARCH INSTITUTE**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<b>Cash flows from operating activities</b>	
Cash received from grants and fees	\$ 4,605,571
Cash paid to suppliers and employees	(4,504,705)
Other income received	53,058
Interest income received	5,295
Income taxes paid	<u>(71,000)</u>
Net cash provided by (used in) operating activities	<u>88,219</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(9,552)
Proceeds from sale of property and equipment	<u>200</u>
Net cash provided by (used in) investing activities	<u>(9,352)</u>
<b>Cash flows from financing activities</b>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	78,867
Beginning cash and cash equivalents	<u>1,210,088</u>
<b>Ending cash and cash equivalents</b>	<u><u>\$ 1,288,955</u></u>
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	
Increase (decrease) in net assets	\$ 196,210
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities	
Depreciation	23,753
Gain of disposal of property and equipment	(33)
(Increase) decrease in accounts receivable	(25,698)
(Increase) decrease in income taxes receivable	52,623
(Increase) decrease in prepaids and other assets	(46,294)
(Increase) decrease in deferred income tax asset	15,000
Increase (decrease) in accounts payable	(224,491)
Increase (decrease) in accrued expenses	28,376
Increase (decrease) in other payables	(34,940)
Increase (decrease) in deferred revenue	98,113
Increase (decrease) in deferred income tax liability	<u>5,600</u>
Net cash provided by (used in) operating activities	<u><u>\$ 88,219</u></u>
<b>Noncash financing and investing activities</b>	<u><u>\$ -</u></u>

See notes to consolidated financial statements.

**IUP RESEARCH INSTITUTE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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 on July 23, 2010 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 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 considers all short-term debt securities with an original maturity of twelve months or less to be cash equivalents. Cash and cash equivalents includes all checking, savings, money market accounts, and certificates of deposit.

**Allowance for doubtful accounts**

The Institute 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.

**Property and equipment**

Property and equipment used in the Institute'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 \$1,000 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.

**Restricted net assets**

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. Permanently restricted net assets are those whose use by the Institute has been restricted by the donors to be maintained by the Institute in perpetuity. Temporarily restricted net assets have been limited by donors for a specific time period or purpose.



**IUP RESEARCH INSTITUTE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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

**Restricted net assets (continued)**

The Institute does not have any permanently or temporarily restricted net assets as of June 30, 2013.

**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 deferred compensation (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 has adopted FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Institute 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 evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

The Institute's evaluation on June 30, 2013 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2009 through 2011 tax years remain subject to examination by the Internal Revenue Service. The Institute does 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 (including publications costs) are expensed as incurred. Advertising expense was \$4,128 for the year ended June 30, 2013, of this amount \$4,128 was for the Institute and \$0 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 \$59,084 has been included with accrued payroll on the consolidated statement of financial position for the year ended June 30, 2013. Of this amount \$45,892 is for the Institute and \$13,192 is for BTG.

**Subsequent events**

Management has evaluated subsequent events through August 29, 2013, the date the financial statements were available to be issued.

**IUP RESEARCH INSTITUTE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

3. CONCENTRATION OF CREDIT RISK

The Institute maintains cash accounts at several financial institutions and BTG maintains cash 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, 2013, cash deposits exceeded the federal insurance coverage by a total of \$80,111. Of this amount, \$80,111 is for the Institute and \$0 is for BTG.

A significant portion of the Institute's contracted services is with IUP as disclosed in Note 6 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. NOTE PAYABLE

The Institute currently has no long-term debt. BTG has a note payable to the Institute in the amount of \$116,965 with accrued interest of \$3,509, which was eliminated in the consolidation. This note payable was paid by the BTG to the Institute in August, 2013.

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, 2013.

6. PENSION PLAN

The Institute and BTG have a 401(k) profit sharing plan for employees who are 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 pension plan. Pension expense for the year ended June 30, 2013 was \$76,769 of which \$52,938 was for the Institute and \$23,831 was for BTG.

7. LEASES

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

Total rent expense for the year ended June 30, 2013 was \$75,120 of which \$55,620 was for the Institute's facility and \$19,500 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, 2013**

8. INCOME TAXES (CONTINUED)

Amounts for deferred tax benefit and liabilities are as follows:

Long-term deferred tax asset	\$ -
Long-term deferred tax liability	<u>5,600</u>
Net long-term deferred tax asset (liability)	<u>\$(5,600)</u>

Summaries of the provisions for income taxes are as follows:

Current income tax expense (benefit)	\$ 85,439
Deferred tax expense (benefit)	<u>20,600</u>
Total provision for income tax expense (benefit)	<u>\$106,039</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, 2013, the Institute paid IUP for contracted services in the amount of \$1,161,761. The Institute owed IUP \$297,686 as of June 30, 2013, 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 services. For the year ended June 30, 2013, the total amounts paid by IUP to the Institute were \$873,363. IUP owed the Institute \$87,917 as of June 30, 2013, 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, 2013.

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, 2013 was \$376,322 which was included in cash and cash equivalents. The Institute has also recorded an offsetting liability in the same amount included in other payables.

**IUP RESEARCH INSTITUTE**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>IUP Research Institute</u>	<u>IUP Research Institute Business and Technology Group, Inc.</u>	<u>Adjustments</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 1,018,957	\$ 269,998	\$ -	\$ 1,288,955
Accounts receivable	653,605	144,509	(3,509)	794,605
Note receivable	116,965	-	(116,965)	-
Prepays and other assets	46,708	-	-	46,708
Total current assets	<u>1,836,235</u>	<u>414,507</u>	<u>(120,474)</u>	<u>2,130,268</u>
<b>Property and equipment</b>				
Furniture and equipment	-	68,874	-	68,874
Less accumulated depreciation	-	43,154	-	43,154
Net property and equipment	<u>-</u>	<u>25,720</u>	<u>-</u>	<u>25,720</u>
<b>Other assets</b>				
Investment in subsidiary	263,547	-	(263,547)	-
Total other assets	<u>263,547</u>	<u>-</u>	<u>(263,547)</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 2,099,782</u>	<u>\$ 440,227</u>	<u>\$ (384,021)</u>	<u>\$ 2,155,988</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 349,111	\$ 4,693	\$ (3,509)	\$ 350,295
Accrued payroll and taxes	96,402	34,983	-	131,385
Accrued income taxes	-	14,439	-	14,439
Note payable	-	116,965	(116,965)	-
Other payables	376,322	-	-	376,322
Deferred revenue	486,396	-	-	486,396
Total current liabilities	<u>1,308,231</u>	<u>171,080</u>	<u>(120,474)</u>	<u>1,358,837</u>
<b>Long-term liabilities</b>				
Deferred income taxes	-	5,600	-	5,600
Total long-term liabilities	<u>-</u>	<u>5,600</u>	<u>-</u>	<u>5,600</u>
Total liabilities	<u>1,308,231</u>	<u>176,680</u>	<u>(120,474)</u>	<u>1,364,437</u>
<b>Net assets</b>				
Unrestricted	791,551	263,547	(263,547)	791,551
<b>Total liabilities and net assets</b>	<u>\$ 2,099,782</u>	<u>\$ 440,227</u>	<u>\$ (384,021)</u>	<u>\$ 2,155,988</u>

See independent auditors' report.

**IUP RESEARCH INSTITUTE**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	IUP Research Institute	IUP Research Institute Business and Technology Group, Inc.	<u>Adjustments</u>	<u>Total</u>
<b>Revenue and other support</b>				
Federal grants and contracts	\$ 1,397,953	\$ 623,480	\$ -	\$ 2,021,433
Other grants and contracts	1,404,292	151,617	-	1,555,909
Other income	47,491	5,547	-	53,038
Fees received	949,922	5,892	-	955,814
Interest income	8,667	137	(3,509)	5,295
Income (loss) from subsidiary	<u>151,813</u>	<u>-</u>	<u>(151,813)</u>	<u>-</u>
Total revenue and other support	<u>3,960,138</u>	<u>786,673</u>	<u>(155,322)</u>	<u>4,591,489</u>
<b>Expenses</b>				
Salaries and wages	798,399	308,497	-	1,106,896
Payroll taxes and benefits	303,063	93,535	-	396,598
Contracted salaries and benefits	488,512	-	-	488,512
Rent and utilities	85,704	28,892	-	114,596
Communication	10,098	10,162	-	20,260
Supplies and equipment	907,929	11,450	-	919,379
Travel	183,139	16,802	-	199,941
Printing and duplication	17,869	2,666	-	20,535
Professional and contracted services	412,572	11,675	-	424,247
Other expenses	522,090	21,389	(3,509)	539,970
Indirect costs	34,553	-	-	34,553
Depreciation	<u>-</u>	<u>23,753</u>	<u>-</u>	<u>23,753</u>
Total expenses	<u>3,763,928</u>	<u>528,821</u>	<u>(3,509)</u>	<u>4,289,240</u>
Increase (decrease) in unrestricted net assets before income taxes	196,210	257,852	(151,813)	302,249
Income tax expense (benefit)	<u>-</u>	<u>106,039</u>	<u>-</u>	<u>106,039</u>
<b>Increase (decrease) in unrestricted net assets</b>	196,210	151,813	(151,813)	196,210
Net assets at beginning of year	<u>595,341</u>	<u>111,734</u>	<u>(111,734)</u>	<u>595,341</u>
<b>Net assets at end of year</b>	<u>\$ 791,551</u>	<u>\$ 263,547</u>	<u>\$ (263,547)</u>	<u>\$ 791,551</u>

See independent auditors' report.

**IUP RESEARCH INSTITUTE**  
**REPORTS REQUIRED BY OMB CIRCULAR A-133**  
**FOR THE YEAR ENDED JUNE 30, 2013**

# 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 financial statements of IUP Research Institute which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated August 29, 2013.

**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 deviancies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deviancies 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we verbally reported to management of IUP Research Institute.

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 29, 2013



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Board of Directors  
IUP Research Institute  
Indiana, Pennsylvania

## **Independent auditors' report on compliance for each major federal program and report on internal control over compliance required by OMB Circular A-133**

We have audited IUP Research Institute's compliance with the types of compliance requirements described in the OMB Circular A-133 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, 2013. 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 requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 has 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, 2013.

### 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Clay & Gascoine LLC*

August 29, 2013

**IUP RESEARCH INSTITUTE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal grantor/Pass-through grantor/project title</u>	<u>Contract/Award Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Monitoring & Evaluating GWW	68-7482-12502	10.902	\$ 104,003 (1)
Passed through Virginia Polytechnic Institute			
Improvement & Marketing of FAEIS	Subaward 320692-19841	10.500	<u>910</u> (1) <u>104,913</u>
 National Fish and Wildlife Foundation			
Implementing NRCS Practices	2011-0110-002	10.912	87,065 (1)
Passed through American Bird Conservancy			
Developing Quality Early Habitat	Subaward 790B	-	<u>69,712</u> (1) <u>156,777</u>
 U.S. Fish and Wildlife Program			
Passed through PA Game Commission			
PA Woodret Genetic Assessment	4000017390	-	26,668 (1)
Implementing Forestland BMP for Golden-winged Warbler	4000015811	-	68,430 (1)
Passed through The Nature Conservancy			
Comparison of Lepidoptera Common	NRC 050112-22813IUP	-	2,127 (1)
Passed through NGO Paso Pacifico			
Population Assessment of Robber Frogs	-	15.672	<u>1,500</u> (1) <u>98,725</u>
 U.S. Department of Justice			
The Haven Project	2009-WA-AX-0013	16.525	<u>61,250</u>
 National Endowment for the Arts			
Promoting Art-Artist Resid	11-5900-8117	45.024	6,966
Footlight Players-Next Generation	12-5900-7112	45.024	<u>7,500</u> <u>14,466</u>
 National Science Foundation			
Investigating Mechanisms	112 0579	47.074	24,505 (1)
Physical Property Measurement System	DMR-0852643	47.049	924 (1)
MRI iMIC Digital Microscope	DBI-1229513	47.074	572,359 (1)
MRI 3D Digital Mapping	BCS-1229521	47.075	<u>243,439</u> (1) <u>841,227</u>
 U.S. Department of Education			
Passed through Georgia State University			
Atlantis Excellence in Mobility	P116J100036	84.116	<u>19,356</u>
 National Institute of Health			
Drug use Among Transnational Mexican Farm Workers	5R01DA019690-4	93.869	<u>2,679</u> (1)

See independent auditors' report.

**IUP RESEARCH INSTITUTE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Federal grantor/Pass-through grantor/project title	Contract/Award Number	Federal CFDA Number	<u>Expenditures</u>
Appalachian Regional Commission Passed through East Tennessee State University Appalachian Teaching Project	CO-12600-F-L10	23.011	____ 3,263
Federal Bureau of Investigation Cohort #3 Masters Completion	A1A103821	-	____ 45,356
Howard Hughes Medical Institute Passed through University of Pittsburgh Phage Hunters	520 07054	-	____ 45,137 (1)
Natural Resources Conservation Services Passed through PA Game Commission Monitoring & Evaluating GWW	-	-	____ 2,004 (1)
US Army Medical Research Acquisition Act Passed through Henry Jackson Foundation Support for DVBIC	W-81XWH-09-C-0026	-	____ 2,800
<b>Total federal awards</b>			<b><u>\$ 1,397,953</u></b>

(1) Denotes a research grant included in the research and development cluster totalling \$1,251,462.

**IUP RESEARCH INSTITUTE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis of accounting which recognizes expenditures when incurred, in accordance with U.S. generally accepted accounting principles.

2. SUBRECIPIENTS

The Institute provided no funding to subrecipients from the federal awards included on the schedule of expenditures of federal awards.

**IUP RESEARCH INSTITUTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Summary of the auditors' results

1. The type of report the auditors issued on the consolidated financial statements was an unqualified 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 unqualified opinion.
6. The audit did not disclose any audit findings required to be reported in accordance with OMB Circular A-133.
7. The major federal programs as part of the Research and Development cluster were:
  - Monitoring & Evaluating GWW 10.902
  - Improvement & Marketing of FAEIS, CFDA No. 10.500
  - Population Assessment of Robber Frogs, CFDA No. 15.672
  - PA Woodret Genetic Assessment
  - Implementing Forestland BMP for Golden-winged Warbler
  - Comparison of Lepidoptera Common
  - MRI iMIC Digital Microscope, CFDA No. 47.074
  - Investigating Mechanisms, CFDA No. 47.074
  - MRI 3D Digital Mapping, CFDA NO. 47.075
  - Physical Property Measurement System, CFDA No. 47.049
  - Drug use Among Transnational Mexican Farm Workers, CFDA No. 93.279
  - Phage Hunters
  - Monitoring & Evaluating GWW
  - Implementing NRCS Practices, CFDA No. 10.912
  - Developing Quality Early Habitat
8. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
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 OMB Circular A-133

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, 2013**

Compliance Findings

There were no prior audit compliance findings.

Internal Control Findings

There were no prior audit internal control findings.