

IUP RESEARCH INSTITUTE
AUDITED FINANCIAL STATEMENTS
AND REPORTS REQUIRED BY OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2012

Clay & Gascoine LLC
Certified Public Accountants

IUP RESEARCH INSTITUTE

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Board of Directors
IUP Research Institute
Indiana, Pennsylvania

Independent auditors' report

We have audited the accompanying consolidated statement of financial position of IUP Research Institute (a not-for-profit corporation), a component unit of Indiana University of Pennsylvania, as of June 30, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of IUP Research Institute's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of IUP Research Institute as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012 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 9 and 10) 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 14 and 15) 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 28, 2012

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012

ASSETS

Current assets

Cash and cash equivalents	\$ 1,210,088
Accounts receivable	768,907
Income taxes receivable	52,623
Prepaid expenses	<u>14</u>
Total current assets	<u>2,031,632</u>

Property and equipment

Furniture and equipment	65,122
Less accumulated depreciation	<u>25,034</u>
Net property and equipment	<u>40,088</u>

Other assets

Deferred income taxes	15,000
Security deposit	<u>400</u>
Total other assets	<u>15,400</u>

Total assets	<u>\$ 2,087,120</u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 574,786
Accrued payroll and taxes	117,448
Other payables	411,262
Deferred revenue	<u>388,283</u>
Total current liabilities	1,491,779

Net assets

Unrestricted	<u>595,341</u>
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Total liabilities and net assets	<u>\$ 2,087,120</u>
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See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Revenue and other support	
Federal grants and contracts	\$ 2,390,785
Other grants and contracts	1,808,905
Other income	15,078
Fees received	723,547
Interest income	<u>9,788</u>
Total revenue and other support	<u>4,948,103</u>
Expenses	
Salaries and wages	1,176,801
Payroll taxes and benefits	442,620
Contracted salaries and benefits	1,120,038
Rent	115,339
Communication	24,391
Supplies and equipment	456,325
Travel	232,161
Printing and duplication	18,790
Professional and contracted services	688,574
Other expenses	860,082
Indirect costs	<u>174,645</u>
Total expenses	<u>5,309,766</u>
Increase (decrease) in unrestricted net assets before income taxes	(361,663)
Income tax expense (benefit)	<u>(83,719)</u>
Increase (decrease) in unrestricted net assets	(277,944)
Net assets at beginning of year	<u>873,285</u>
Net assets at end of year	<u>\$ 595,341</u>

See notes to consolidated financial statements.

IUP RESEARCH INSTITUTE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from operating activities	
Cash received from grants and fees	\$ 4,508,051
Cash paid to suppliers and employees	(5,128,553)
Other income received	15,078
Interest income received	<u>9,788</u>
Net cash provided by (used in) operating activities	<u>(595,636)</u>
Cash flows from investing activities	
Proceeds from sale of property and equipment	<u>14,467</u>
Net cash provided by (used in) investing activities	<u>14,467</u>
Cash flows from financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(581,169)
Beginning cash and cash equivalents	<u>1,791,257</u>
Ending cash and cash equivalents	<u>\$ 1,210,088</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ (277,944)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities	
Depreciation	26,686
Loss of disposal of property and equipment	17,651
(Increase) decrease in accounts receivable	207,059
(Increase) decrease in income taxes receivable	(52,623)
(Increase) decrease in prepaid expenses	179,151
(Increase) decrease in deferred income tax asset	(15,000)
Increase (decrease) in accounts payable	(13,423)
Increase (decrease) in accrued expenses	(43,480)
Increase (decrease) in other payables	15,132
Increase (decrease) in deferred revenue	(622,245)
Increase (decrease) in deferred income tax liability	<u>(16,600)</u>
Net cash provided by (used in) operating activities	<u>\$ (595,636)</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, 2012

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, 2012

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, 2012.

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.

Advertising expenses

Advertising costs are expensed as incurred. Advertising expense was \$1,193 for the year ended June 30, 2012, of this amount \$1,193 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 \$55,037 has been included with accrued payroll on the consolidated statement of financial position for the year ended June 30, 2012. Of this amount \$46,411 is for the Institute and \$8,626 is for BTG.

Subsequent events

Management has evaluated subsequent events through August 28, 2012, the date the financial statements were available to be issued.

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, 2012, cash deposits exceeded the federal insurance coverage by a total of \$198,458. Of this amount, \$198,458 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. **LONG-TERM DEBT**

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.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012.

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, 2012 was \$93,973 of which \$50,609 was for the Institute and \$43,364 was for BTG.

7. LEASES

The Institute leases a facility for its offices and programs which is currently leased on a month to month basis. BTG leases a facility for its offices and programs. This lease expired March 31, 2012 and BTG is currently on a month to month lease.

Total rent expense for the year ended June 30, 2012 was \$115,339 of which \$55,620 was for the Institute's facility and \$59,719 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.

Amounts for deferred tax benefit and liabilities are as follows:

Long-term deferred tax benefit	\$15,000
Long-term deferred tax liability	<u>-</u>
Net long-term deferred tax benefit (liability)	<u>\$15,000</u>

Summaries of the provisions for income taxes are as follows:

Current income tax expense (benefit)	\$(52,118)
Deferred tax expense (benefit)	<u>(31,600)</u>
Total provision for income tax expense (benefit)	<u>\$(83,719)</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, 2012, the Institute paid IUP for contracted services in the amount of \$1,662,919 and owed IUP \$532,252 as of June 30, 2012, which is included in accounts payable. IUP pays a fee to the Institute for managing research grants on behalf of IUP. For the year ended June 30, 2012, the total fees paid by IUP to the Institute were \$678,194.

IUP RESEARCH INSTITUTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012.

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, 2012 was \$411,262 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, 2012

	IUP Research Institute	IUP Research Institute Business and Technology Group, Inc.	<u>Adjustments</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,131,570	\$ 78,518	\$ -	\$ 1,210,088
Accounts receivable	695,157	77,259	(3,509)	768,907
Income taxes receivable	-	52,623	-	52,623
Prepaid expenses	14	-	-	14
Total current assets	<u>1,826,741</u>	<u>208,400</u>	<u>(3,509)</u>	<u>2,031,632</u>
Property and equipment				
Furniture and equipment	-	65,122	-	65,122
Less accumulated depreciation	-	25,034	-	25,034
Net property and equipment	<u>-</u>	<u>40,088</u>	<u>-</u>	<u>40,088</u>
Other assets				
Deferred income taxes	-	15,000	-	15,000
Security deposit	400	-	-	400
Note receivable	116,965	-	(116,965)	-
Investment in subsidiary	111,734	-	(111,734)	-
Total other assets	<u>229,099</u>	<u>15,000</u>	<u>(228,699)</u>	<u>15,400</u>
Total assets	<u>\$ 2,055,840</u>	<u>\$ 263,488</u>	<u>\$ (232,208)</u>	<u>\$ 2,087,120</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 572,315	\$ 5,980	\$ (3,509)	\$ 574,786
Accrued payroll and taxes	88,639	28,809	-	117,448
Other payables	411,262	-	-	411,262
Deferred revenue	388,283	-	-	388,283
Total current liabilities	<u>1,460,499</u>	<u>34,789</u>	<u>(3,509)</u>	<u>1,491,779</u>
Long-term liabilities				
Note payable	-	116,965	(116,965)	-
Total long-term liabilities	<u>-</u>	<u>116,965</u>	<u>(116,965)</u>	<u>-</u>
Total liabilities	<u>1,460,499</u>	<u>151,754</u>	<u>(120,474)</u>	<u>1,491,779</u>
Net assets				
Unrestricted	<u>595,341</u>	<u>111,734</u>	<u>(111,734)</u>	<u>595,341</u>
Total liabilities and net assets	<u>\$ 2,055,840</u>	<u>\$ 263,488</u>	<u>\$ (232,208)</u>	<u>\$ 2,087,120</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	IUP Research Institute	IUP Research Institute Business and Technology Group, Inc.	<u>Adjustments</u>	<u>Total</u>
Revenue and other support				
Federal grants and contracts	\$ 1,838,990	\$ 551,795	\$ -	\$ 2,390,785
Other grants and contracts	1,731,788	77,117	-	1,808,905
Other income	11,180	3,898	-	15,078
Fees received	723,547	-	-	723,547
Interest income	12,880	417	(3,509)	9,788
Income (loss) from subsidiary	<u>(172,365)</u>	<u>-</u>	<u>172,365</u>	<u>-</u>
Total revenue and other support	<u>4,146,020</u>	<u>633,227</u>	<u>168,856</u>	<u>4,948,103</u>
Expenses				
Salaries and wages	750,830	425,971	-	1,176,801
Payroll taxes and benefits	284,273	158,347	-	442,620
Contracted salaries and benefits	1,120,038	-	-	1,120,038
Rent	55,620	59,719	-	115,339
Communication	10,021	14,370	-	24,391
Supplies and equipment	451,290	5,035	-	456,325
Travel	195,304	36,857	-	232,161
Printing and duplication	14,558	4,232	-	18,790
Professional and contracted services	659,853	28,721	-	688,574
Other expenses	707,532	156,059	(3,509)	860,082
Indirect costs	<u>174,645</u>	<u>-</u>	<u>-</u>	<u>174,645</u>
Total expenses	<u>4,423,964</u>	<u>889,311</u>	<u>(3,509)</u>	<u>5,309,766</u>
Increase (decrease) in unrestricted net assets before income taxes	(277,944)	(256,084)	172,365	(361,663)
Income tax expense (benefit)	<u>-</u>	<u>(83,719)</u>	<u>-</u>	<u>(83,719)</u>
Increase (decrease) in unrestricted net assets	(277,944)	(172,365)	172,365	(277,944)
Net assets at beginning of year	<u>873,285</u>	<u>284,099</u>	<u>(284,099)</u>	<u>873,285</u>
Net assets at end of year	<u>\$ 595,341</u>	<u>\$ 111,734</u>	<u>\$ (111,734)</u>	<u>\$ 595,341</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
REPORTS REQUIRED BY OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2012

CLAY & GASCOINE LLC

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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 the consolidated financial statements of IUP Research Institute as of and for the year ended June 30, 2012, and have issued our report thereon dated August 28, 2012. 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.

Internal control over financial reporting

Management of IUP Research Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered IUP Research Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of IUP Research Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether IUP Research Institute's consolidated 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 reported verbally to management of IUP Research Institute.

This report is intended for the information and use of the Board of Directors and management of IUP Research Institute, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Clay & Gascoine LLC

August 28, 2012

CLAY & GASCOINE LLC

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Board of Directors
IUP Research Institute
Indiana, Pennsylvania

Independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133

Compliance

We have audited IUP Research Institute's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of IUP Research Institute's management. Our responsibility is to express an opinion on IUP Research Institute's compliance based on our audit.

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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of IUP Research Institute's compliance with those requirements.

In our opinion, IUP Research Institute complied, in all material respects, with the 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, 2012.

Internal control over compliance

The management of IUP Research Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered IUP Research Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 an entity's 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 a 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors and management of IUP Research Institute, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Clay & Gascoine LLC

August 28, 2012

IUP RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<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			
ARRA-Forest Reclamation	10-DG-11244419-04	10.688	\$ 54,009 (1)
Monitoring & Evaluating GWW	68-7482-12502	10.902	\$ 28,749 (1)
Passed through Virginia Polytechnic Institute			
Improvement & Marketing of FAEIS	Prime 2008-38420-04799 Subaward 320692-19841	10.500	347 (1)
			<u>83,105</u>
U.S. Department of Defense			
Passed through Department of the Army			
Rapid Forensic Microbes	W911NF-09-1-0066	12.431	<u>648,562</u> (1)
U.S. Fish and Wildlife Program			
Golden-winged Warbler Demographics	MBNA0102	-	8,554 (1)
Passed through PA Game Commission			
White Nose Syndrome	239017	-	118,445 (1)
Implementing Forestland BMP for Golden-winged Warbler	4000015811	-	56,972 (1)
Passed through The Nature Conservancy			
Comparison of Lepidoptera Common	NRC 050112-22813IUP	-	1,023 (1)
			<u>184,994</u>
U.S. Department of Justice			
The Haven Project	2009-WA-AX-0013	16.525	57,597
Correctional Education Clearinghouse	2009-DI-BX-0207	16.753	495,452 (1)
			<u>553,049</u>
National Endowment for the Arts			
Promoting Art-Artist Resid	11-5700-8117	45.024	<u>3,034</u>
National Endowment Humanities			
Preservation of IUP Museum	PG-51094-11	45.149	<u>2,740</u>
National Science Foundation			
Investigating Mechanisms	112 0579	47.074	29,598 (1)
Inductive Teaching Models in Chemistry	DUE-0736836		2,941 (1)
Physical Property Measurement System	DMR-0852643	47.049	(608) (1)
ARRA-Acquisition of Liquid Chromatography			
Instrumentation	CHE-0959229	47.082	2,462 (1)
Passed through University of Massachusetts			
Collaborative Adoptive Sensing	04002341H2	47.041	7,363 (1)
Passed through Consortium for Ocean Leadership			
US Science Support Program	JSA-66-410	-	3,000 (1)
			<u>44,756</u>

See independent auditors' report.

IUP RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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 Education			
IMAPS 0809	P116Z090284	81.116	3,679
Passed through Georgia State University			
Atlantis Excellence in Mobility	P116J100036	84.116	<u>12,000</u>
			<u>15,679</u>
National Institute of Health			
Drug use Among Transnational Mexican Farm Workers	5R01DA019690-4	93.869	<u>17,372</u> (1)
U.S. Department of Health			
ARRA-Simulation of Telehealth	1076HP20948-01-00	93.411	<u>43,489</u>
Appalachian Regional Commission			
Passed through Oarphin Co. Historical Society			
Cival War Project	-	-	<u>3,010</u> (1)
Federal Bureau of Investigation			
Cohort #3 Masters Completion	A1A103821	-	<u>85,022</u>
Howard Hughes Medical Institute			
Passed through University of Pittsburgh			
Phage Hunters	520 07054	-	<u>2,644</u> (1)
National Guard Bureau			
Passed through Battelle Memorial			
FY10-FY13 WMD REALITI-NGB AHRFC	270793	-	6,768
Passed through IUP RI BTG			
Civil Support Information Mgmt System	BTG 1011-003	-	<u>29,236</u> (1)
			<u>36,004</u>
Natural Resources Conservation Services			
Passed through PA Game Commission			
Monitoring & Evaluating GWW	-	-	<u>2,915</u> (1)
National Fish and Wildlife Foundation			
Implementing NRCS Practices	2011-0110-002	10.912	43,460 (1)
Passed through American Bird Conservacy			
Forestland BMP's for Golden-winged Warbler	495A	-	59,653 (1)
Developoing Quality Early Habitat	790B	-	<u>9,502</u> (1)
			<u>112,615</u>
Total federal awards			<u>\$ 1,838,990</u>

(1) Denotes a research grant included in the research and development cluster totalling \$1,624,661.

See independent auditors' report.

IUP RESEARCH INSTITUTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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:
 - ARRA-Forest Reclamation, CFDA No. 10.688
 - Monitoring & Evaluating GWW 10.902
 - Improvement & Marketing of FAEIS, CFDA No. 10.500
 - Rapid Forensic Microbes, CFDA No. 12.431
 - Golden-winged Warbler Demographics
 - White Nose Syndrome
 - Implementing Forestland BMP for Golden-winged Warbler
 - Comparison of Lepidoptera Common
 - Correctional Education Clearinghouse, CFDA No. 16.753
 - Investigating Mechanisms, CFDA No. 47.074
 - Inductive Teaching Models in Chemistry
 - Physical Property Measurement System, CFDA No. 47.049
 - ARRA-Acquisition of Liquid Chromatography Instrumentation 47.082
 - Collaborative Adoptive Sensing, CFDA No. 47.041
 - US Science Support Program
 - Drug use Among Transnational Mexican Farm Workers, CFDA No. 93.279
 - Civil War Project
 - Phage Hunters
 - Civil Support Information Mgmt System
 - Monitoring & Evaluating GWW
 - Forestland BMP's for Golden-winged Warbler
 - Implementing NRCS Practices
 - 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

IUP RESEARCH INSTITUTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Findings and Questioned Costs for Federal Awards in Accordance with OMB Circular A-133

Compliance Findings and Questioned Costs - None

Internal Control Findings - None

Compliance Findings

There were no prior audit compliance findings.

Internal Control Findings

There were no prior audit internal control findings.