

**SOUTHERN POLYTECHNIC APPLIED
RESEARCH CORPORATION**

FINANCIAL REPORT

JUNE 30, 2012

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION

**FINANCIAL REPORT
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of the Board of Directors
Southern Polytechnic Applied Research Corporation
Marietta, Georgia

We have audited the financial statements of Southern Polytechnic Applied Research Corporation, a corporation organized under the laws of the State of Georgia, for the year ended 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of the Research Corporation. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, published by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Research Corporation as of June 30, 2012, and the results of its operations, its financial position, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our audit of the internal control over financial reporting of the Research Corporation. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and does not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an integral part of the financial statements for purposes of providing additional context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 also not a required part of the financial statements. Such information is the responsibility of management and is not subject to the auditing procedures applied in our audit of the financial statements, and certain additional procedures, including reviewing and assessing such information directly to the schedule of expenditures of federal awards, are required to report on the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 26, 2012

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Southern Polytechnic Applied Research Corporation ("SPARC") was incorporated under the laws of the State of Georgia as a nonprofit corporation on May 11, 2011. SPARC qualifies as a tax exempt Corporation under Section 501(c)(3) of the Internal Revenue Code. Fiscal activities of SPARC began on July 1, 2011.

SPARC operates as a cooperative organization of Southern Polytechnic State University ("SPSU") under a Memorandum of Understanding with the Board of Regents in the State of Georgia.

SPARC is organized to fulfill broad scientific, literary, educational, and charitable purposes and operates to enhance the mission of SPSU of teaching, applied research, and public service.

SPARC contributes to the applied research function of SPSU by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of applied research. SPARC administers grants and contracts on behalf of SPSU, State, and Federal agencies. SPARC also identifies, protects, and manages intellectual property for SPSU that is the result of work done under grants or contracts.

Description of the Financial Statements

The statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows are designed to provide information which will assist in understanding the financial condition and performance of SPARC. SPARC's net assets are one indicator of SPARC's financial health. Over time, increases or decreases in net assets are one indicator of the changes in SPARC's financial condition when considered with other non-financial facts.

The Statement of Net Assets presents the assets, liabilities, and net assets of SPARC.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year, including the expenses of other operating divisions operating.

The Statement of Cash Flows presents information in the form of cash inflows and outflows summarized by operations.

Condensed financial statements are presented for the year ended June 30, 2012, the first year of activities of SPARC. In the following discussion, Fiscal 2012 refers to the year ended June 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Highlights

Assets:	
Current Assets	<u>\$ 601,388</u>
Total Assets	<u>\$ 601,388</u>
Liabilities:	
Current Liabilities	<u>\$ 340,048</u>
Total Liabilities	<u>\$ 340,048</u>
Net Assets:	
Unrestricted Net Assets	<u>\$ 261,340</u>
Total Net Assets	<u>\$ 261,340</u>
Total Liabilities and Net Assets	<u>\$ 601,388</u>

Current assets consist of monies held at SunTrust bank, petty cash, current accounts receivable, and prepaid expenses.

Liabilities consist of accounts payable that are largely composed of monies due to the University for subaward dollars not yet invoiced but currently due. Liabilities also include deferred revenue: income received in fiscal year 2012 but not recognizable until fiscal year 2013 in the form of prepaid continuing education course registrations.

Net assets represent the change in net assets plus the prior year net assets.

As this is SPARC's first year of operations there is no prior year comparison available.

The condensed statement of revenues, expenses and changes in net assets is shown below.

Operating revenues:	
Sales and service	\$ 156,031
Grants and contracts	450,107
Contributions	100
Total Operating Revenues	<u>\$ 814,238</u>
Operating expenses:	
Subawards to University	\$ 325,433
Payments to and on behalf of SPSU	191,682
Management and administration	35,783
Total Operating Expenses	<u>\$ 552,898</u>
Increase in net assets	\$ 261,340
Net assets beginning of year	-
Net assets end of year	<u>\$ 261,340</u>

Operating revenues consist primarily of sponsored research and sales and service (Continuing Education Center). At this time SPARC does not have any investment assets or real estate properties for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Operating expenses primarily are allocated to the University, professional services (\$25,001), consultants (\$44,279), administration expenses (postage, insurance, IT, dues and subscriptions) and other expenses.

Net cash provided by operating activities \$ 416,559

Cash,

Beginning of year

Cash,

End of year

\$ 416,559

Economic Outlook

Therefore, SPARC's financial support of the University's research mission will continue to be a primary focus. Through our partnership with the University, SPARC will continue to support the University's research mission through its financial support of the Continuing Education Center through its unrestricted net assets.

Questions concerning this report or requests for additional information should be directed to Raston Hunt, Chief Operating Officer, SPARC at (707) 915-7229 or at Building I, Room 277, 1100 South Maricopa Boulevard, Marietta, CA 90060.

**SOUTHERN POLYTECHNIC APPLIED
RESEARCH CORPORATION**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

Assets

Current assets

Cash	\$	416,559
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Accounts receivable		182,196
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Prepaid expenses		1,643
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Total current assets		601,388
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Total assets	\$	601,388
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Liabilities and Net Assets

Current liabilities

Accounts payable	\$	3,289
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Due to SPSU		327,015
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Deferred revenues		27,744
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Total current liabilities		348,048
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Net assets

Unrestricted		261,340
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Total liabilities and net assets	\$	601,388
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See Notes to Financial Statements.

**SOUTHERN POLYTECHNIC APPLIED
RESEARCH CORPORATION**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Revenues and other support	
Federal grant revenue	\$ 304,581
State grant revenue	4,800
Gifts in kind	500
Program fees	142,300
Contributions	100
Other revenues	16,913
Total revenues and other support	814,238
EXPENSES	
Subawards	325,433
Management and general	35,783
Total expenses	552,898
Change in unrestricted net assets	261,340
Net assets, beginning of year	-
Net assets, end of year	\$ 261,340

See Notes to Financial Statements

**SOUTHERN POLYTECHNIC APPLIED
RESEARCH CORPORATION**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

OPERATING ACTIVITIES		
Change in unrestricted net assets	\$	261,340
Net change in:		
Accounts receivable		(183,186)
Prepaid expenses		(1,043)
Accounts payable		3,289
Due to SPSU		327,015
Deferred revenue		9,744
Net cash provided by operating activities	<u>416,550</u>	
Increase in cash and cash equivalents	416,550	416,550
Cash, beginning of year		<u>-</u>
Cash, end of year	<u>\$</u>	<u>416,559</u>

See Notes to Financial Statements.

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES

Southern Polytechnic Applied Research Corporation (the "Research Corporation") was established in 2011 to conduct the educational, research, and service functions of Southern Polytechnic State University (the "University"). The Research Corporation receives contributions and grants from individuals, associations, and public agencies and in obtaining contracts with such individuals or entities for the performance of sponsored research, development, education, or other programs by the various colleges, schools, departments, or other units of the University.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Research Corporation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

The GASB has issued Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities" and Statement No. 38, "Certain Financial Statement Note Disclosures." The financial statement presentation required by these statements provides a

Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information and precedes the financial statements.

Reporting Entity

The Research Corporation was defined in accordance with GASB Statement 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining the Reporting Entity," and GASB Statement No. 41, "Determining the Reporting Entity." The Research Corporation qualifies for treatment as a component unit of the University; therefore, the Research Corporation's financial statements are included in the University's combined financial statements as a discretely presented component unit.

Basis of Accounting

For financial reporting purposes, the Research Corporation is considered a special-purpose government entity. Accordingly, the Research Corporation's financial statements are presented using the accrual basis of accounting. However, the Research Corporation uses the modified accrual basis of accounting when an obligation has been incurred.

In accordance with GASB Statement No. 30, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Research Corporation is required to follow all applicable GASB pronouncements. The Research Corporation has adopted all applicable GASB pronouncements issued through 2010. The Research Corporation has not adopted GASB pronouncements issued after 2010.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Revenue Recognition

Revenue from sponsored research is recognized as expenditures are made for approved research activities. A sponsored research receivable is recorded for amounts expended for authorized purposes when bills for uncollectible accounts, because all amounts are considered collectible.

Income Taxes

The Research Corporation is exempt from general income taxes under Section 513(c)(1) of the Internal Revenue Code (the "Code"), whereby only unrelated business income as defined by Section 514(c)(1) of the Code is subject to federal income tax. In addition, the Research Corporation is a private foundation based on a determination received from the Internal Revenue Service. The Research Corporation has no uncertain income tax positions at June 30, 2012. Management has evaluated all uncertain income tax positions and determined that the Research Corporation had no uncertain income tax positions at June 30, 2012.

Concentrations of Credit Risk

Accounts of the financial institution are insured by the Federal Deposit Insurance Corporation for up to

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 3. FACILITIES AND ADMINISTRATIVE COST REVENUE

The Research Corporation receives reimbursement from research sponsors for facilities and administrative costs. A portion of these costs is provided by the University of Florida.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. SUMMARY OF SPONSORED RESEARCH ACTIVITY

The activities for sponsored research awarded to the Research Corporation in accordance with the contract for the year ended June 30, 2012 as follows:

Sponsored research awarded during the year (including facilities and administrative cost reimbursements)	2,960,881
Sponsored research awarded but not recognized – end of year	<u>658,107</u>
	<u>\$ 2,302,774</u>

The total number of sponsored research awards was ten for the year ended June 30, 2012. The \$658,107 of sponsored research recognized during the year is included in federal grant revenue, state grant revenue, gifts in kind, contractual private, and partially in other revenues on the Statement of Activities.

NOTE 5. RELATED PARTY TRANSACTIONS

As of June 30, 2012, the Research Corporation had incurred \$227,015 in expenses on behalf of the University during 2012.

NOTE 6. SIGNIFICANT FUNDING SOURCES

The Research Corporation had total revenue of \$914,028 in 2012. Of this amount, \$227,015 of revenue was from ELS Educational Services, and \$687,013 of revenue was from other sources.

NOTE 7. SUBSEQUENT EVENTS

The Research Corporation has evaluated events occurring through September 26, 2012, the date on which the financial statements were available to be issued, and no additional disclosures are required.

**SOUTHERN POLYTECHNIC APPLIED
RESEARCH CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

	Federal CFDA #	Federal Expenditures
National Science Foundation		
Strengthening the STEM Pipeline	47.076	\$ 79,075
 Nuclear Regulatory Commission		
Faculty Development Program for Nuclear Generation at SPSU	77.008	18,643
<hr/>		
Department of Education		
The College Access Challenge: Creating Pathways to College	84.259A	6,120
Race to the Top: SPSU ITEACH Program Replication	84.395A	220,087
		\$ 323,937

See Note to Schedule of Expenditures of Federal Awards.

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION
NOTE TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards is presented on the accrual basis of accounting. The schedule includes expenditures for the reporting period for federal awards received from the federal government, states, local governments, and non-profit organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Audit Committee of the Board of Directors
Southern Polytechnic Applied Research Corporation
Marietta, Georgia

We have audited the financial statements of Southern Polytechnic Applied Research Corporation (the "Research Corporation"), and have issued our report thereon dated September 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Research Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Research Corporation's internal control over financial reporting as a basis for our audit. Our consideration of the Research Corporation's internal control over financial reporting was not a substitute for the Research Corporation's own internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Corporation'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 to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting for the limited period described in the first paragraph of this report was not a substitute for the Research Corporation's own internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Corporation's internal control over financial reporting. We identified certain weaknesses in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Corporation'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 these provisions was not an objective of our audit, and accordingly, we do not express an opinion on compliance with these provisions. Results of our tests of compliance with these provisions are reported to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 26, 2012

MAULDIN & JENKINS

CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Audit Committee of the Board of Directors
Southern Polytechnic Applied Research Corporation
Marietta, Georgia

Compliance

We have audited Southern Polytechnic Applied Research Corporation's compliance with the terms of compliance requirements described in the OMB Circular A-133 Compliance supplement that could have a direct and material effect on each of Southern Polytechnic Applied Research Corporation's major federal programs for the year ended June 30, 2012. Southern Polytechnic Applied Research Corporation's major federal programs are identified in the Compliance Supplement, Appendix A, and are applicable to each of its major federal programs as identified in the Compliance Supplement, Appendix A. Our audit was conducted to determine Southern Polytechnic Applied Research Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards applicable to compliance audits contained in *OMB Circular A-133 Compliance Supplement*. These standards and OMB Circular A-133 require that we plan and perform the audit to be reasonably assured of detecting whether non-compliance with the terms of compliance requirements occurred that would have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Southern Polytechnic Applied Research Corporation's compliance with these 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. Our audit does not provide a legal determination of Southern Polytechnic Applied Research Corporation's compliance with these requirements.

In our opinion, Southern Polytechnic Applied Research Corporation complied, in all material respects, with the terms of compliance requirements 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

Management of Southern Polytechnic Applied Research Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. We were engaged to audit internal control over compliance and to test and report on internal control over compliance procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southern Polytechnic Applied Research Corporation'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 weakness or weaknesses 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and specified parties.

Mauldin & Jenkins, LLC

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements:

Type of auditors' report issued

Unqualified

Yes

No

Internal control over financial reporting:

Material weaknesses identified?

X

Significant deficiencies identified not

considered to be material weaknesses?

None

X

Non-compliance material to the financial

statements noted?

X

Federal Awards:

Internal controls over major programs:

Material weaknesses identified?

X

Significant deficiencies identified not

Type of auditors' report issued on

compliance for major programs

Unqualified

Audit findings required to be reported in accordance
with OMB Circular A-133 Section 510(a)

None

Identification of major programs:

84.395 UTeach

Dollar threshold used to distinguish between

Type A and type B programs

\$ 300,000

Yes

No

Auditee qualified as low-risk auditee?

X

Financial Statement Findings?

X

Federal Award Findings Questioned Costs?

X

SOUTHERN POLYTECHNIC APPLIED RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2012

II. FINANCIAL STATEMENT FINDINGS

NONE REPORTED

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE REPORTED