

***THE UNIVERSITY OF MISSISSIPPI
RESEARCH FOUNDATION***

University, Mississippi

*Audited Financial Statements and
Auditors' Report on Internal Control,
Compliance and Other Matters
June 30, 2007*

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

**AUDITED FINANCIAL STATEMENTS
AND AUDITORS' REPORT ON INTERNAL CONTROL,
COMPLIANCE AND OTHER MATTERS**

JUNE 30, 2007

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

AUDITED FINANCIAL STATEMENTS AND AUDITORS' REPORT ON INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS

JUNE 30, 2007

CONTENTS

	<u>Page</u>
Independent Auditors' Report	3
Management's Discussion and Analysis	5
Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11
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 <i>Government Auditing Standards</i>	15

Board of Directors
The University of Mississippi Research Foundation
University, Mississippi

Regions Building
200 East Capitol Street
Suite 100 (39201-2200)

♦
Box 23027
Jackson, MS 39225-3027

♦
601.948.6700
Fax 601.948.6000

♦
www.str-cpa.com

Independent Auditors' Report

We have audited the accompanying statement of net assets of The University of Mississippi Research Foundation (the Foundation) as of June 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Foundation as of June 30, 2007, and the changes in its net assets 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 May 30, 2008, on our consideration of the Foundation'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 is important for assessing the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles

generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Smith, Turner & Reever, P.A.

May 30, 2008

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

The University of Mississippi Research Foundation (UMRF) was established in 1999. The main purpose of the UMRF is to promote the development, implementation and coordination of sponsored research and new technologies at the University of Mississippi.

The following discussion and analysis of the UMRF's financial performance presents an overview of its financial activities for the fiscal year ended June 30, 2007. This discussion and analysis has been prepared by management and should be considered in conjunction with information contained in the accompanying financial statements and footnotes. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the UMRF at the end of the fiscal year. The components of the statement include assets, liabilities and net assets. Assets and liabilities are presented as current or non-current, giving the reader a sense of the availability of assets on a short-term and long-term basis, as well as the UMRF's ability to meet immediate and future obligations.

The net assets (assets minus liabilities) section presents one indicator of the current financial condition of the UMRF, while the change in net assets found in the Statement of Revenues, Expenses and Changes in Net Assets is an indicator of the change in financial condition during the year. All of UMRF's net assets are categorized as capital assets, net of related debt. This amount represents the investments made to date for construction of the University of Mississippi Research Park. The anticipated completion date for this project is 2010.

The current assets at June 30, 2007 are comprised of a receivable due from a sponsored project awarded by the United States Department of Commerce. The primary purpose of this award is to fund the construction of the University of Mississippi Research Park.

The largest component of the June 30, 2007 current liabilities is an amount due to the University of Mississippi. This amount represents payment due for services rendered under a subcontract for grant management and oversight of the master planning and construction of the research park.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The purpose of the Statement of Revenues, Expenses and Changes in Net Assets is to present all revenues received and expenses incurred, as well as any other gains and losses for the

fiscal year. The amounts presented in the Statement of Net Assets are based on the activity included in the Statement of Revenues, Expenses and Changes in Net Assets.

This statement presents these activities as either operating or nonoperating. In general terms, operating revenues are revenues earned as a result of providing goods or services. Operating expenses are those expenses incurred to acquire or produce goods and services or to support the mission of the UMRF. The net result of operating activities is presented as operating income or loss. Since a portion of the UMRF's revenue is classified as nonoperating, including federal grants and contracts received for capital expenditures, "increase in net assets" is more indicative of the overall financial results for the fiscal year. For the fiscal year ended June 30, 2007, all of the revenues received by the UMRF came from an award from the United States Department of Commerce.

Operating expenses are depicted in the Statement of Revenues, Expenses and Changes In Net Assets by the type of goods or services purchased. Operating expenses for the fiscal year ended June 30, 2007 consisted primarily of payments to the University of Mississippi for grant management services.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides another perspective of financial activities and results. This statement presents information about the activities on a cash basis utilizing two categories. First, the cash flows from operating activities section summarizes cash generated and used through operating activities. Second, cash flows from capital financing activities summarizes the cash used for the acquisition, construction, renovation and improvement of capital and related assets. The UMRF had no cash or cash equivalents at June 30, 2007. During the fiscal year, the only source of cash came from the UMRF's award from the United States Department of Commerce. Throughout the year, cash was drawn from the agency and immediately disbursed as payments were due, resulting in a net cash balance of zero.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The UMRF was founded for the purpose of supporting the research and other externally sponsored academic activities of the University of Mississippi. It operates primarily as a grants management organization and, as such, will maintain limited amounts of capital assets other than the University of Mississippi Research Park and no long-term liabilities.

SUBSEQUENT EVENTS AND OTHER OPERATIONAL FACTORS

In October 2007, the UMRF received its first major contribution of \$100,000 for support of the UMRF. This money will be designated for operations related to the University of Mississippi National Center for Physical Acoustics.

The University of Mississippi Research Park is beginning the schematic design phase. UMRF anticipates the awarding of the architectural contract for infrastructure by June 30, 2008.

MANAGEMENT'S OUTLOOK

The UMRF continues to improve its financial position. The award received from the United States Department of Commerce ensures continued operations through 2011. The immediate priority of the UMRF is to secure funding for construction and management of the research park. In addition, the UMRF will continue to seek resources to further research at the University of Mississippi.

FINANCIAL STATEMENTS

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

CURRENT ASSETS:	
Accounts receivable	<u>\$ 111,600</u>
 TOTAL CURRENT ASSETS	 111,600
PROPERTY AND EQUIPMENT:	
Construction in progress	<u>53,949</u>
	<u>\$ 165,549</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	<u>\$ 111,600</u>
 TOTAL CURRENT LIABILITIES	 111,600
NET ASSETS:	
Invested in capital assets, net of related debt	<u>53,949</u>
	<u>\$ 165,549</u>

See accompanying Notes to Financial Statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007

OPERATING REVENUES:	
Federal grants and contracts	<u>\$ 76,021</u>
TOTAL OPERATING REVENUES	76,021
OPERATING EXPENSES:	
Contractual services	<u>76,021</u>
TOTAL OPERATING EXPENSES	<u>76,021</u>
OPERATING INCOME	-
NONOPERATING REVENUES (EXPENSES):	
Federal grants and contracts	<u>53,949</u>
INCREASE IN NET ASSETS	53,949
NET ASSETS, BEGINNING OF YEAR	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 53,949</u>

See accompanying Notes to Financial Statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:	
Received from federal grants	\$ 18,370
Payments to vendors and suppliers	<u>(18,370)</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	-
CASH FLOWS FROM (USED FOR) CAPITAL FINANCING ACTIVITIES:	
Received from federal grants	53,949
Purchases of property and equipment	<u>(53,949)</u>
NET CASH FROM (USED FOR) CAPITAL FINANCING ACTIVITIES	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES:	
Operating income	\$ -
Adjustments to reconcile operating income to net cash from (used for) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(111,600)
Increase (decrease) in accounts payable	<u>111,600</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Mississippi Research Foundation (the Foundation) is a not-for-profit Mississippi corporation established to promote the development, implementation, and coordination of sponsored research and new technologies at The University of Mississippi (the University) in the furtherance of the University's educational objectives.

Basis of Presentation

The financial statements of the Foundation 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), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (an amendment of GASB Statement No. 34)*. The presentation required by GASB Statement No. 34 and GASB Statement No. 35 provides a comprehensive, entity-wide perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Basis of Accounting

The financial statements of the Foundation have been prepared on an accrual basis whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments purchased with an original maturity of three months or less.

Accounts Receivable

Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. An estimated receivable has been recorded for services rendered but not yet billed as of June 30, 2007. The receivable was arrived at by taking the subsequent payments of expenses invoiced after year end and recording at year end the portions incurred and reimbursable at year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Expenditures for construction in progress are capitalized as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 40 years for buildings, 20 years for improvements other than buildings, and 3-15 years for equipment.

Investments

Investments without readily determinable market values are accounted for utilizing the cost basis method. For the year ended June 30, 2007, the Foundation owned 548,128 shares of ChromaDex, Inc. which is a supplier of phytochemical standards and reference materials. No value has been assigned to such shares as there is not a readily determinable market value and such shares were acquired without any cost to the Foundation as a result of a licensing agreement between ChromaDex, Inc. and the University of Mississippi.

Revenue Recognition

All of the Foundation's revenues for the year ended June 30, 2007 are derived from a restricted grant from the U. S. Department of Commerce. This grant supports the development of the University's Research Park. The Foundation recognizes revenue associated with direct costs as the costs are incurred. These revenues are reported as operating revenues.

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 reported amount of assets, liabilities, revenues, and expenses during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

NOTE 2 - TAX EXEMPT STATUS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 3 - TRANSACTIONS WITH THE UNIVERSITY OF MISSISSIPPI

Pursuant to an agreement between the Foundation and the University, the University provides grant management services and oversight of the Master Planning and Phase I construction of the Research Park. Contractual services provided by the University to the Foundation for the year ended June 30, 2007 totaled \$71,935 and is included in accounts payable in the accompanying statement of financial position.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2007 totals \$111,600 representing a reimbursement receivable from the U. S. Department of Commerce for funds expended on the Research Park.

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2007 is presented as follows:

	July 1, 2006	Additions	Deletions	June 30, 2007
Capital assets, non-depreciable:				
Construction in progress	\$ -	\$ 53,949	\$ -	\$ 53,949
Total capital assets, non-depreciable	-	53,949	-	53,949
Capital assets, net of depreciation	\$ -	\$ 53,949	\$ -	\$ 53,949

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2007 total \$111,600 representing amounts due to vendors for services rendered.

NOTE 7 - GRANTS AND CONTRACTS AWARDED

At June 30, 2007, the grant from the U. S. Department of Commerce was as follows:

Total award under Grant No. 60NANB6D6134	\$ 19,744,560
Less: Received as of June 30, 2007	(18,370)
Expended and receivable as of June 30, 2007	<u>(111,600)</u>
Remaining	<u>\$ 19,614,590</u>

NOTE 8 - SUBSEQUENT EVENT

Subsequent to June 30, 2007, the Foundation received a research award of \$100,000 designated for the National Center for Physical Acoustics from The Elwood & Stephanie Norris Foundation.

Board of Directors
University of Mississippi Research Foundation
University, Mississippi

Regions Building
200 East Capitol Street
Suite 100 (39201-2200)
♦
Box 23027
Jackson, MS 39225-3027
♦
601.948.6700
Fax 601.948.6000
♦
www.str-cpa.com

**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 financial statements of The University of Mississippi Research Foundation (the Foundation) as of and for the year ended June 30, 2007, and have issued our report thereon dated May 30, 2008. 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

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting 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 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 the Foundation'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*.

This report is intended solely for the information and use of The University of Mississippi Research Foundation management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Turner & Reever, P.A.

May 30, 2008