

The University of Mississippi
Research Foundation
(A Component Unit of The University of Mississippi)

**Financial Statements
with Supplementary Information
Years Ended June 30, 2010 and 2009**

The University of Mississippi Research Foundation

(A Component Unit of The University of Mississippi)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of The University of Mississippi Research Foundation (A Component Unit of The University of Mississippi) (the "Foundation") as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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 University of Mississippi Research Foundation, as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 November 1, 2010, on our consideration of the Foundation's internal control over financial reporting and 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.

The accompanying management's discussion and analysis on pages 3 through 6 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.

Our 2010 audit was performed for the purpose of forming an opinion on the financial statements of the University of Mississippi Research Foundation taken as a whole. The schedule of expenditures of federal awards on page 18 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 financial statements. The schedule of expenditures of federal awards is the responsibility of the Foundation's management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the 2010 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Carr, Riggs & Ingram, LLC

Ridgeland, Mississippi
November 1, 2010

The University of Mississippi Research Foundation

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Management's Discussion and Analysis

June 30, 2010 and 2009

Introduction

Management's Discussion and Analysis serves to provide an introductory overview of the financial position and performance of the University of Mississippi Research Foundation (Foundation). This discussion and analysis has been prepared by management and should be considered in conjunction with the financial statements and accompanying note disclosures. Three financial statements are presented: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. These statements present financial information for the fiscal year ended June 30, 2010, and comparative data for the fiscal years ended June 30, 2009 and 2008.

The Foundation

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

Statements of Net Assets

The Statements of Net Assets present the financial position of the Foundation at the end of the fiscal year. The components of the statements include assets, liabilities, and net assets. Assets and liabilities are presented as current or noncurrent, giving the reader a sense of the availability of assets on a short-term and long-term basis, as well as the Foundation's ability to meet immediate and future obligations. The net assets (assets minus liabilities) section presents a snapshot of the Foundation's overall net worth. This section is categorized to communicate to readers the degree of availability of these net assets to meet institutional obligations.

Net assets are divided into three major categories: invested in capital assets, restricted net assets and unrestricted net assets. Invested in capital assets provides a snapshot of the Foundation's net equity in property, plant and equipment. Assets are classified as restricted when limitations or restrictions are placed on their use by external parties. Restricted net assets are sub-divided into two categories, expendable and nonexpendable. Expendable restricted assets are available for expenditures by the Foundation but must be used in accordance with the intent of the appropriate external parties. Nonexpendable restricted net assets are only available for investment purposes and must remain intact in perpetuity. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

The financial position of the Foundation improved during fiscal year 2010. Total assets increased by \$2,092,950 and total liabilities increased by \$534,777 resulting in a \$1,558,173 increase in net assets. A large portion of this increase was due to an increase in value of ChromaDex Corporation stock the Foundation holds as well as an increase in the value of construction in progress.

In fiscal year 2009, the financial position of the Foundation had declined. Total assets decreased by \$1,892,296 and total liabilities increased by \$36,271 resulting in a \$1,928,567 decrease in net assets. A large portion of this decrease was due to a decrease in value of ChromaDex Corporation stock the Foundation holds. The other portion of this decrease was due to an increase of \$36,271 in accounts payable.

Current assets at June 30, 2010 and 2009 consisted primarily of cash, investments and receivables. The receivables primarily represent reimbursements receivable from the United States Department of Commerce relative to the grant for the construction of the Research Park.

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Current liabilities at June 30, 2010 and 2009 are comprised of accounts payable. The amounts payable represent amounts due to vendors for services rendered.

The largest component of net assets consist of the Foundation's net investment in capital assets relating to amounts incurred to date for the construction of the Research Park. Per the development agreement between the Foundation and the University of Mississippi, the Foundation will convey, upon completion, the site work at the Research Park to the University by a special warranty bill of sale. At that time, the University of Mississippi shall assume all obligations and liabilities for the maintenance repair, upkeep, supervision, and control of the Research Park and related assets conveyed. Net assets restricted – expendable for research represents the contribution from the Elwood & Stephanie Norris Foundation. The remaining net assets are classified as unrestricted.

Condensed Statements of Net Assets

<i>June 30,</i>	2010	2009	2008
Assets			
Current assets	\$ 1,607,383	\$ 341,641	\$ 2,249,578
Capital assets	989,217	162,009	146,368
Total assets	\$ 2,596,600	\$ 503,650	\$ 2,395,946
Liabilities			
Current liabilities	\$ 664,762	\$ 129,985	\$ 93,714
Total liabilities	664,762	129,985	93,714
Net Assets			
Invested in capital assets	989,217	162,009	146,368
Restricted - expendable for research	93,007	100,000	100,000
Unrestricted	849,614	111,656	2,055,864
Total net assets	1,931,838	373,665	2,302,232
Total liabilities and net assets	\$ 2,596,600	\$ 503,650	\$ 2,395,946

Statements of Revenues, Expenses and Changes in Net Assets

The changes in net assets presented in the Statements of Net Assets are based on the activity included in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of these statements is to present all revenues received and expenses incurred by the Foundation.

These statements present 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 Foundation. The net result of operating activities is presented as operating income or

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loss. Since a portion of the Foundation's revenues and expenses 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, 2009, the Foundation received \$384,058 from the United States Department of Commerce award and \$125 from private, unrestricted donations. Additionally, the value of ChromaDex Corporation stock held decreased in value by \$1,945,854. The remaining \$1,545 was interest earned by the Foundation.

For the fiscal year ended June 30, 2010, the Foundation recognized \$1,296,229 from the United States Department of Commerce award and \$43,000 from private, restricted donations. Additionally, the value of ChromaDex Corporation stock held increased in value by \$739,972. The remaining \$667 was interest earned by the Foundation.

Operating expenses are depicted in the Statements of Revenues, Expenses and Changes in Net Assets by the type of goods or services purchased. Operating expenses for each of the years in the three year period ended June 30, 2010, consisted primarily of payments to the University of Mississippi for grant management and to support research activities.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

<i>Years ended June 30,</i>	2010	2009	2008
Operating Revenues			
Federal grants and contracts	\$ 469,021	\$ 368,417	\$ 354,136
Total operating revenues	469,021	368,417	354,136
Operating Expenses			
Contractual services	474,695	368,441	354,136
Total operating expenses	474,695	368,441	354,136
Operating Income (Loss)	(5,674)	(24)	-
Nonoperating Revenues (Expenses)			
Interest income	667	1,545	384
Unrealized gain (loss) on marketable securities	739,972	(1,945,854)	2,055,480
Gifts	43,000	125	100,000
Federal grants and contracts	827,208	15,641	92,419
Support for University activities	(47,000)	-	-
Total nonoperating revenues (expenses)	1,563,847	(1,928,543)	2,248,283
Increase (decrease) in net assets	\$ 1,558,173	\$ (1,928,567)	\$ 2,248,283

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Statements of Cash Flows

The Statements of Cash Flows provides another perspective of financial activities and results. These statements present information about the activities on a cash basis utilizing four categories. The cash flows from operating activities section summarizes cash generated and used through operating activities. The cash flows from noncapital financing activities section summarizes the cash generated from private grants and donations. Cash flows from capital and related financing activities section summarize the cash used for acquisition, construction, renovation, and improvement of capital and related assets. Finally, the cash flows from the investing activities section summarizes interest received. During the year, cash and cash equivalents increased by \$6,073. For the fiscal year ended June 30, 2009, cash or cash equivalents increased by \$1,646. Throughout the year, cash was drawn from the agency and immediately disbursed as payments were due resulting in a net cash balance of zero. For the fiscal year ended June 30, 2009, the Foundation continued to earn interest on the original \$100,000 investment as well as received other unrestricted contributions in the amount of \$125. For the fiscal year ended June 30, 2010, the Foundation continued to earn interest on accumulated contributions received in prior years.

Condensed Statements of Cash Flows

<i>Years ended June 30,</i>	2010	2009	2008
Cash Provided By (Used In)			
Operating activities	\$ (5,678)	\$ (24)	\$ -
Noncapital financing activities	(4,000)	125	100,000
Capital financing activities	15,084	-	-
Investing activities	667	1,545	384
Increase in cash and cash equivalents	\$ 6,073	\$ 1,646	\$ 100,384

Capital Assets and Debt Administration

The Foundation 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 Research Park and no long-term liabilities.

Subsequent Events and Other Operational Factors

The contract for the building of the first Research Park building has been awarded. It is currently under construction with an estimated completion date of April 2011.

Management's Outlook

The Foundation continues to generally improve its financial position. Our investments increased in value during the year ended June 30, 2010. The award received from the United States Department of Commerce ensures continued operations through 2011. The immediate priority of the Foundation is to secure funding for construction and management of the Research Park. In addition, the Foundation will continue to seek resources to further research at the University of Mississippi.

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Statements of Net Assets

<i>June 30,</i>	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 108,103	\$ 102,030
Accounts receivable	649,682	129,985
Investments	849,598	109,626
Total current assets	1,607,383	341,641
Capital Assets		
Construction in progress	989,217	162,009
Total assets	\$ 2,596,600	\$ 503,650
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 664,762	\$ 129,985
Total current liabilities	664,762	129,985
Net assets		
Investment in capital assets	989,217	162,009
Restricted - expendable for research	93,007	100,000
Unrestricted	849,614	111,656
Total net assets	1,931,838	373,665
Total liabilities and net assets	\$ 2,596,600	\$ 503,650

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Change in Net Assets

<i>Years ended June 30,</i>	2010	2009
Operating Revenues		
Federal grants and contracts	\$ 469,021	\$ 368,417
Total operating revenues	469,021	368,417
Operating Expenses		
Contractual services	474,695	368,441
Total operating expenses	474,695	368,441
Operating Loss	(5,674)	(24)
Nonoperating Revenues (Expenses)		
Interest income	667	1,545
Unrealized gain (loss) on marketable securities	739,972	(1,945,854)
Gifts	43,000	125
Federal grants and contracts	827,208	15,641
Support for University activities	(47,000)	-
Total nonoperating revenues (expenses)	1,563,847	(1,928,543)
Increase (decrease) in net assets	1,558,173	(1,928,567)
Net assets, beginning of year	373,665	2,302,232
Net assets, end of year	\$ 1,931,838	\$ 373,665

See accompanying notes to financial statements.

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Statements of Cash Flows

<i>Years ended June 30,</i>	2010	2009
Operating activities		
Grants and contracts	\$ 474,963	\$ 332,146
Payments to vendors and contractors	(480,641)	(332,170)
Net cash used in operating activities	(5,678)	(24)
Noncapital Financing Activities		
Received from private grants and donations	43,000	125
Payments to University for research activities	(47,000)	-
Net cash provided by (used in) noncapital financing activities	(4,000)	125
Capital and Related Financing Activities		
Capital grants	816,010	15,641
Purchases of capital assets	(800,926)	(15,641)
Net cash provided by capital and related financing activities	15,084	-
Investing Activities		
Interest received	667	1,545
Net cash provided by investing activities	667	1,545
Increase in cash and cash equivalents	6,073	1,646
Cash and cash equivalents, beginning of year	102,030	100,384
Cash and cash equivalents, end of year	\$ 108,103	\$ 102,030
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (5,674)	\$ (24)
Changes in operating assets and liabilities		
Accounts receivable	5,942	(36,271)
Accounts payable and accrued liabilities	(5,946)	36,271
Net cash used in operating activities	\$ (5,678)	\$ (24)

See accompanying notes to financial statements.

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Notes to Financial Statements

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and 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 education objectives. The Foundation is considered to be an affiliate and component unit of the University because all board members are related to the University as faculty, staff or trustees. Additionally, the Foundation's sole corporate member is the Chancellor of the University of Mississippi.

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. The Foundation reports as a Business-Type Activity (BTA) as defined by Governmental Accounting Standards Board (GASB) Statement No. 35. BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

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 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.

GASB establishes the standards for external financial reporting for governmental entities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets – Capital assets, net of accumulated depreciation.

- Restricted:

Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained in perpetuity by the Foundation. Such assets include the principal of the Foundation's permanent endowment funds.

Expendable – Net assets whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net assets whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the board of directors or may otherwise be limited by contractual agreements with outside parties.

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Notes to Financial Statements

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pursuant to GASB Statement No. 20, the Foundation has elected to apply the provisions for all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

In connection with the preparation of the financial statements, management of the Foundation evaluated subsequent events through November 1, 2010 which was the date the financial statements were available to be issued.

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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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. Estimated receivables have been recorded for services rendered but not yet billed as of June 30, 2010 and 2009. The receivables were arrived by taking the subsequent payments of expenses invoiced after year end and recording at year end the portions incurred and reimbursable at year end.

Investments

Investments in equity and debt securities with readily determinable fair values are carried at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as nonoperating revenues (expenses) in the Statements of Revenues, Expenses and Changes in Net Assets. Investments without readily determinable market values are accounted for utilizing the cost-basis method.

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 on assets placed in service will be 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 to 15 years for equipment.

Revenue Recognition

Most of the Foundation's revenues for the two years ended June 30, 2010 were derived from a restricted grant from the United States Department of Commerce. This grant supports the United

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Notes to Financial Statements

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

States Department of Commerce. This grant supports the construction and 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 or nonoperating revenues, depending on the nature of the cost incurred.

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are capital related and investment income are included in nonoperating revenues. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as restricted net assets.

During the year ended June 30, 2010, the Foundation received restricted donations that were designated for research activities at the University of Mississippi. These donations were expended to cover such research activities. During the year ended June 30, 2009, the Foundation received unrestricted donations that were not designated for a specific purpose but could be used to cover operational expenses.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Future Accounting Pronouncements

In June 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the amendments to certain statements in order to clarify or update the statements for consistency regarding derivative instruments, unallocated insurance contracts, external pools and 2a7-like pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010.

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds. The requirements of GASB No. 54 are effective for the Foundation for the fiscal year beginning after June 15, 2010.

Management has not completed its evaluations to determine the effect, if any, the adoption of these future statements will have on the University's financial condition or results of operations.

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Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS

The Foundation does not have formal policies regarding investments, deposits and related risks.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Foundation maintains its cash in deposit accounts which, at times, can exceed federally insured limits. In October, 2008, the FDIC raised the federally insured limits to \$250,000 per depositor effective through December 31, 2013. At June 30, 2010 and 2009, the Foundation's bank balances were \$108,103 and \$102,303, respectively. Therefore, no deposit amounts were at risk.

Investments

A concentration of credit risk exists at June 30, 2010 and 2009, as all of the Foundation's investments with readily determined fair values were held in one corporate stock.

Summary of Carrying Values

The carrying values of deposits and investments are included in the Statements of Net Assets as follows:

<i>June 30,</i>	2010	2009
Carrying Value		
Deposits	\$ 108,103	\$ 102,030
Investments	849,598	109,626
	\$ 957,701	\$ 211,656

Included in the following Statements of Net Assets captions

Cash and cash equivalents	\$ 108,103	\$ 102,030
Investments	849,598	109,626
	\$ 957,701	\$ 211,656

The Foundation owns 548,128 shares of ChromaDex Corporation, which is a supplier of phytochemical standards and reference materials. For the year ended June 30, 2009, the Foundation market value of ChromaDex Corporation had declined significantly. Accordingly, \$1,945,854 was recognized as an unrealized loss on marketable securities.

For the year ended June 30, 2010, the market value of ChromaDex Corporation had improved significantly. Accordingly, \$739,972 was recognized as an unrealized gain on marketable securities.

In October 2008, the Foundation entered into an investor's rights agreement with CENTRI Technology, Inc. (CENTRI), which is a data computer software company. On October 20, 2008, the Foundation was granted 1,431,667 shares of stock in CENTRI. No value has been assigned to these shares, as there is no readily determinable market value, and such shares were acquired without any cost to the Foundation as a result of a licensing agreement between CENTRI and the University.

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NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Also, in July 2009, the Foundation entered into an investor rights agreement with Oxford Polymed Corporation, which is “a pharmaceutical company specializing in the production of high margin, low risk, low cost patent-protected drugs with large market opportunities.” In September 2009, 600 common shares of Oxford Polymed Corporation were purchased with a par value of \$0.001 for a total purchase cost of \$0.60 paid for these shares. There is no readily determinable market value for these shares and accordingly, they are carried at their acquired cost basis.

NOTE 3 – TRANSACTIONS WITH THE UNIVERSITY OF MISSISSIPPI

The Foundation has been awarded a grant from the United States Department of Commerce through the National Institute of Standards and Technology in the amount of \$19,744,560 for the development of the University of Mississippi Research Park to be constructed on property of the University. In connection therewith, the Foundation and the University entered into a development agreement wherein the Foundation will lease certain parcels of land owned by the University under a ground lease arrangement for the development of the Research Park. The Foundation intends to construct roadways, utilities, buildings, common areas, and other necessary infrastructure for the operation of the Research Park on the leased property. Pursuant to the agreement and upon the completion of the site work related to the project, the Foundation will convey the site work at the Research Park to the University by a special warranty bill of sale. At that time the University will assume all obligations and liabilities for the maintenance repair, upkeep, supervision, and control of the Research Park and related assets conveyed.

In connection therewith, the Foundation and the University entered into a subcontract agreement wherein 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 years ended June 30, 2010 and 2009 totaled \$469,131 and \$363,233, respectively, of which \$124,039 and \$128,617, respectively, are included in accounts payable in the accompanying Statements of Net Assets.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 and 2009 totaled \$649,682 and \$129,985, respectively, and primarily represent reimbursements receivable from the United States Department of Commerce. As of June 30, 2010, accounts receivable include \$26,282 of unbilled amounts relating to contractor retainages.

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Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2010 and 2009 was:

<i>June 30, 2010</i>	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, non-depreciable				
Construction in progress	\$ 162,009	\$ 827,208	\$ -	\$ 989,217

June 30, 2009

Capital assets, non-depreciable				
Construction in progress	\$ 146,368	\$ 15,641	\$ -	\$ 162,009

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2010 and 2009 totaled \$664,762 and \$129,985, respectively, representing amounts due to vendors for services rendered.

NOTE 7 – GRANTS AND CONTRACT AWARDED

At June 30, 2010, the grant from the United States Department of Commerce was as follows:

Total award under Grant No. 60NANB6D6134	\$ 19,744,560
Less received as of June 30, 2010	(1,607,177)
Less expended and receivable as of June 30, 2010	(649,635)
Remaining funding available	\$ 17,487,748

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Foundation participates in certain federal sponsored programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement from the granting agency for expenditures disallowed under the terms of the grant. Management believes disallowances, if any, will not have a material adverse impact on the financial position of the Foundation.

NOTE 9 – RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions and natural disasters. The Foundation was self insured for the year ended June 30, 2009, during which no claims were made. The Foundation obtained commercial coverage beginning August 7, 2009.

SUPPLEMENTARY INFORMATION

The University of Mississippi Research Foundation

(A Component Unit of The University of Mississippi)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF COMMERCE		
Congressionally-Identified Project through the NIST for the University Research Park	11.617	<u>\$ 1,296,229</u>
 Grand Total - All Programs		<u><u>\$ 1,296,229</u></u>

NOTES TO SCHEDULE:

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, as was used for the financial statements.

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

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

We have audited the financial statements of The University of Mississippi Research Foundation (the Foundation), a component unit of The University of Mississippi, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 1, 2010. 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 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 Foundation'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 would not necessarily 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 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 did not disclose any 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 Board of Directors, 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.

Cove, Riggs & Ingram, LLC

Ridgeland, Mississippi
November 1, 2010

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

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

Compliance

We have audited the compliance of the University of Mississippi Research Foundation (“the Foundation”) 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 the Foundation’s major federal program for the year ended June 30, 2010. The Foundation’s major federal program is 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 its major federal program is the responsibility of the Foundation’s management. Our responsibility is to express an opinion on the Foundation’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 OMB Circular A-133. 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 the Foundation’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. Our audit does not provide a legal determination of the Foundation’s compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation’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 the Foundation's internal control over compliance.

A deficiency in internal control over compliance 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, 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.

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. However, we identified one deficiency in internal control over compliance, that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs. 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.

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Foundation's response, and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the management and board of directors of the Foundation, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Care, Riggs & Ingram, LLC

Ridgeland, Mississippi
November 1, 2010

The University of Mississippi Research Foundation

(A Component Unit of The University of Mississippi)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510 (a))?	Yes

Identification of major program(s):

CFDA Number(s)

11.617

Name of Federal Program or Cluster

Congressionally-Identified Projects – University Research
Park

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as low-risk auditee?	No
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<u>Section II - Financial Statement Findings</u>	None reported
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<u>Section III - Federal Award Findings and Questioned Costs</u>	Yes
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Summary Schedule of Prior Audit Findings

No prior audit findings were reported.

The University of Mississippi Research Foundation
(A Component Unit of The University of Mississippi)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2010

Section III - Federal Award Findings and Questioned Costs

2010-01: Internal Control over Cash Management

Finding Type: Significant Deficiency and Immaterial Noncompliance

Program Tested: Congressionally - Identified Projects- UM Research Park (U.S. Department of Commerce - CFDA #11.617)

Questioned Cost: None

Criteria

In accordance with the requirements for cash management contained in the A-102 Common Rule, OMB Circular A-110 (2 CFR section 215.22), Treasury regulations at 31 CFR part 205, program legislation, federal awarding agency regulations, and the terms and conditions of the award, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients.

Condition and Cause

Pursuant to the terms of the NIST grant awarded by the U.S. Department of Commerce to the Foundation, advances taken under this grant are limited to the minimum amounts necessary to meet immediate needs and shall be for periods not to exceed 30 days.

During our testing of 100% of the cash advance draw-downs, we identified one instance in which an advance totaling \$15,086 was drawn-down for a period exceeding the 30 day requirement as a result of initial questions regarding the characterization and allowability of the related expenditure prior to its payment to the vendor. The time required to resolve these matters resulted in the advance funding related to the expenditure exceeded the 30 day limitation.

Effect

Failure to establish formalized procedures to minimize the time elapsing between transfer of funds and disbursement could result in a material noncompliance finding and subject the Foundation to liabilities related to the return of earned interest.

Recommendation

We recommend that the Foundation implement additional control procedures to ensure that advances are not drawn-down until reimbursement expenditures have been sufficiently scrutinized and approved for payment.

Name(s) of Contact Person(s) Responsible for Corrective Action:

Dr. Robin Buchannon

The University of Mississippi Research Foundation

(A Component Unit of The University of Mississippi)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2010

Management Response and Corrective Action Planned:

This error occurred because funds were drawn down, but the invoice was not presented for payment in a timely manner. We have revised our policy so that all invoices are properly reviewed and approved prior to drawing funds, and funds are not drawn until the check has been prepared and signed by both (required) signatories. The day following our request to draw down funds, we check to ensure funds have arrived at our bank. Once the funds are in the bank, the check is mailed to the vendor. This procedure follows our policy of segregation of duties, in the following manner:

- 1) Invoice is reviewed by appropriate officials (depending on nature of invoice);
- 2) Appropriate officials authorized payment;
- 3) The Accountant ensures funds are available, and that invoice follows approved budget;
- 4) The Accountant requests check to be prepared;
- 5) Check prepared by Assistant to Vice Chancellor for Research and Sponsored Programs at the University of Mississippi;
- 6) Check signed by President and Treasurer of UMRF, and placed in secure cabinet;
- 7) The Accountant then notifies University of Mississippi Accounting Department to draw-down sufficient funds;
- 8) After receipt of funds by bank is verified, check is mailed to vendor by Assistant to Vice Chancellor for Research and Sponsored Programs at the University of Mississippi.

Anticipated Completion Date:
October 18, 2010